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2026-27

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Abbreviations – 1/2

AAAL: Alliance Air Aviation Ltd	GTR: Gross Tax Revenues	PIT: Personal Income Tax
AIASL: AI Airport Services Limited	GoI: Government of India	PMAY: Pradhan Mantri Awas Yojna
AIESL: Air India Engineering Services Limited	GST: Goods and Services Tax	PMGKAY: Pradhan Mantri Gareeb Kalyan Ann Yojana
BE: Budget Estimate	GSTCC: GST Compensation Cess	PMGSY: Pradhan Mantri Gram Sadak Yojna
BEML: Bharat Earth Movers Limited	GVA: Gross Value Added	PLI: Production-linked incentive
Capex: Capital Expenditure	IDBI: IDBI Bank Limited	PSU: Public Sector Undertaking
CGA: Controller General of Accounts	IEBR: Internal and Extra Budgetary Resources	QoQ: Quarter on quarter
CGST: Central Goods and Services Tax	IGST: Integrated Goods and Services Tax	RBI: Reserve Bank of India
CMB: Cash Management Bills	JJM: Jal Jeevan Mission	RE: Revised Estimate
CPSE: Central Public Sector Enterprise	MGNREGA: Mahatma Gandhi National Rural Employment Guarantee Act	Revex: Revenue Expenditure
CT: Corporate Tax	MoD: Ministry of Defence	SDG: Supplementary Demand for Grants
CTD: Central Tax Devolution	MoF: Ministry of Finance	SGS: State Government Securities
DFPD: Department of Food and Public Distribution	MoR: Ministry of Railways	STT: Security Transaction Tax
ELI: Employment Linked Incentive	MoRTH: Ministry of Road Transport and Highways	T-Bill: Treasury Bills
EOI: Expression of Interest	MPC: Monetary Policy Committee	TTM: Trailing 12 months
FAE: First Advance Estimate	MTFP: Medium Term Fiscal Policy	$: United States dollar
FAR: Fully Accessible Route	NMB: Net Market Borrowings	UT: Union territory
FCI: Food Corporation of India	NMDC: National Mineral Development Corporation	VB-G RAM-G: Viksit Bharat—Guarantee for Rozgar and Ajeevika Mission (Gramin)
FC: Finance Commission	NHAI: National Highway Authority of India	WMA: Ways and Means Advances
FII: Foreign Institutional Investment	NHM: National Health Mission	YTD: Year to date
FPI: Foreign Portfolio Investment	NSO: National Statistical Office	YoY: Year-on-Year
FRBM: Fiscal Responsibility and Budget Management	NSSF: National Small Saving Fund	
FY: Financial year	NTR: Net Tax Revenues	
G-Sec: Government securities	OMO: Open Market Operations	
GDP: Gross Domestic Product	PA: Provisional Actual	
GMB: Gross Market Borrowings	PDIL: Projects and Development India Limited	

Abbreviations – 2/2

2W: Two-wheeler	NBS: Nutrient-Based Subsidy
AHPs: Allied health professionals	NCHMCT: National Council for Hotel Management and Catering Technology
AI: Artificial intelligence	NDDKG: National Destination Digital Knowledge Grid
BCD: Basic customs duty	NIP: National Infrastructure Pipeline
BESS: Battery energy storage system	OEM: Original equipment manufacturer
BFSI: Banking, financial services and insurance	PAN: Permanent Account Number
bps: Basis points	PMAY-Urban: Pradhan Mantri Awas Yojana – Urban
CAGR: Compound annual growth rate	PM-Kisan: Pradhan Mantri Kisan Samman Nidhi Yojana
CCPS: Coastal Cargo Promotion Scheme	PMSGMBY: PM Surya Ghar Muft Bijli Yojana
CCUS: Carbon capture, utilisation and storage	PPP: Public–private partnership
CGTMSE: Credit Guarantee Fund Trust for Micro and Small Enterprises	PV: Passenger vehicle
CV: Commercial vehicle	R&D: Research and development
e-Bus: Electric bus	RDSS: Reform-Linked Distribution Scheme
EPC: Engineering procurement and construction	REIT: Real estate investment trust
F&O: Futures & options	SME: Small and medium enterprises
InvIT: Infrastructure Investment Trust	SWAMIH: Special Window for Affordable and Mid-Income Housing
IP: Intellectual property	TAN: Tax Deduction and Collection Account Number
IPO: Initial public offering	TCS: Tax collected at source
IWAI: Inland Waterways Authority of India	TDS: Tax deducted at source
MSME: Micro, small medium enterprises	TOT: Toll-Operate-Transfer
NBFC: Non-banking financial company	TReDS: Trade Receivables electronic Discounting System

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Highlights - I

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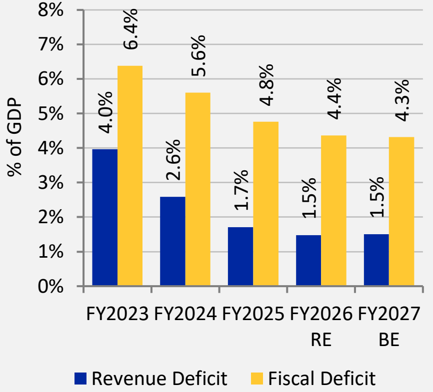
GoI's Revenue and Fiscal Deficit (as % of GDP)



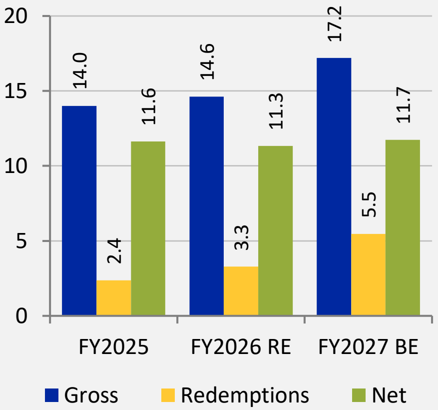
BE/RE: Budget/Revised Estimates; Source: Union Budget, GoI, ICRA Research

The Union Budget for FY2027 attempts to strike a balance between boosting growth and maintaining macroeconomic stability, while also initiating some important policy changes. The Government of India (GoI) has shifted its focus back to capex, with a target of Rs. 12.2 trillion for FY2027, implying a healthy 11.5% growth over the FY2026 RE, aided by a sizeable expansion in the outlay for the capex loan scheme. Including the grants-in-aid for the creation of capital assets, the GoI's effective capex is up by a sharp 22%, which is expected to augur well for growth, although the onus of execution shifts to the states. Notably, the debt/GDP ratio has been pared to 55.6% in FY2027 BE from 56.1% in FY2026 RE, in line with its goal to align it to 50±1% by FY2031, although the upcoming release of the new GDP series (base year: 2022-23) could lower this ratio further, providing some fiscal headroom over the next five years. With this, there is a marginal fiscal compression, with the fiscal deficit pegged at 4.3% of GDP in FY2027 BE vs. 4.4% in FY2026 RE. Overall, the GoI has pencilled in mostly reasonable assumptions across revenue and expenditure targets, thereby lending credibility to the overall Budget math.

- **FY2026 fiscal deficit target retained at 4.4% of GDP in RE, in line with BE:** The GoI's revenue deficit has been revised upwards slightly to Rs. 5.3 trillion in FY2026 RE from Rs. 5.2 trillion in the BE, with the undershooting in revenue receipts (-Rs. 0.78 trillion) marginally outweighing the compression in revex (-Rs. 0.75 trillion). However, with a shortfall in the capex target (-Rs. 0.3 trillion), the fiscal deficit for FY2026 narrowed slightly to Rs. 15.6 trillion from the BE of Rs. 15.7 trillion. Despite somewhat higher nominal GDP print in FY2026 (RE: Rs. 357.1 trillion vs. BE: Rs. 357.0 trillion), the fiscal deficit in FY2026 RE has been retained at 4.4% of GDP, similar to the budgeted target, and in line with ICRA's expectations.
- **GoI's debt/GDP ratio curtailed at 55.6% in FY2027 BE:** The GoI has stuck to its commitment of a shift in the fiscal anchor to medium-term debt consolidation away from annual fiscal deficit targets and has pegged the Central Government debt at 55.6% of GDP in FY2027 (56.1% in FY2026 RE). While the pace of consolidation is lower than anticipated, the upcoming release of the new GDP series (base year: 2022-23 vs. current: 2011-12) may alter this ratio, and bring it closer to the goal of 50±1% by FY2031. This could lead to a shallower debt consolidation trajectory over the next five years, creating some fiscal headroom.

Highlights - II

GoI's Gross and Net Market Borrowings (Rs. Trillion)



Source: Union Budget, GoI; ICRA Research

- **GoI's fiscal deficit targeted at 4.3% of GDP in FY2027:** With the growth in revenue receipts (+5.7%) estimated to be lower than that in revenue spending (+6.6%), the revenue deficit is budgeted to widen to Rs. 5.9 trillion in FY2027 BE from Rs. 5.3 trillion in FY2026 RE. Moreover, the fiscal deficit is budgeted at Rs. 17.0 trillion in FY2027 BE (ICRA exp: Rs. 16.9 trillion), higher than the FY2026 RE, amid a ~12% growth in capex, even as the target for miscellaneous capital receipts has been hiked. However, as a proportion of GDP, the revenue deficit is pegged at 1.5% in FY2027 BE, in line with the FY2026 RE, while the fiscal deficit is estimated to narrow to 4.3% from 4.4% during this period.

- **GTR targeted to grow by 8.0% in FY2027 BE:** While the YoY growth in direct taxes is pegged at a healthy 11.4%, indirect taxes are estimated to grow by 3.0%; this is largely on account of the termination of the GST compensation cess collections in FY2026. Excluding this, the GTR is expected to grow by 10.4% YoY in FY2027, with the uptick in indirect taxes estimated at ~9%, implying a tax buoyancy of 1.0 in FY2027 BE (vs. 1.2 in FY2026 RE).

- **Growth in revex projected at 6.6%, while that for capex is targeted at 11.5%:** The modest YoY rise in revex in FY2027 BE was driven by a sharp 10.2% increase in interest payments, partly offset by a 4.5% decline in allocation towards major subsidies. Additionally, the GoI has raised its capex target by a sharp ~12% YoY in FY2027 BE, primarily led by enhanced allocation for the 50-year interest-free loans to states for capital investment (~40% of total YoY increase in capex), followed by a modest uptick in the allocation towards Defence, Roads and Railways.

- **GoI's net market borrowings estimated to rise in FY2027 BE:** The GoI's net market borrowings are estimated to rise by just 3.6% to Rs. 11.7 trillion in FY2027 BE from Rs. 11.3 trillion in FY2026 RE. However, redemptions are expected to surge to Rs. 5.5 trillion in FY2027 (vs. Rs. 3.3 trillion in FY2026 RE). As a result, the gross market borrowings have been pegged to rise sharply to Rs. 17.2 trillion in FY2027 BE from Rs. 14.6 trillion in FY2026 RE, much higher than market expectations. This is likely to exert upward pressure on G-Sec yields.

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GoI expects fiscal deficit to print at 4.4% of GDP in FY2026 RE, in line with BE

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- The FY2026 RE indicates that the GoI's fiscal deficit would narrow marginally to Rs. 15.6 trillion from Rs. 15.7 trillion in the BE. Despite this, and the nominal GDP for FY2026 being revised upwards slightly to Rs. 357.1 trillion from Rs. 357.0 trillion in the BE, the fiscal deficit is expected to remain at 4.4% of GDP, in line with the BE.
- The slight narrowing in the fiscal deficit in FY2026 RE relative to the BE by Rs. 0.1 trillion has been largely led by lower-than-budgeted capital expenditure (-Rs. 0.3 trillion) as well as the cut in revenue spending (-Rs. 0.8 trillion), which outweighed the shortfall in revenue receipts (-Rs. 0.8 trillion) and non-debt capital inflows (-Rs. 0.1 trillion) in FY2026 RE vs. BE.
- On a YoY basis, the GoI expects its fiscal deficit to moderate to Rs. 15.6 trillion in FY2026 RE from Rs. 15.7 trillion in the FY2025 actuals. This is on account of a robust expansion in non-tax revenues (+24.4%; to Rs. 6.7 trillion in FY2026 RE from Rs. 5.4 trillion in FY2025 actuals), net tax revenues (+7.0%; to Rs. 26.7 trillion from Rs. 25.0 trillion) and miscellaneous capital receipts (+96.7%; to Rs. 338.4 billion from Rs. 172.0 billion), offsetting the uptick in total expenditure (+6.7%; to Rs. 49.6 trillion from Rs. 46.5 trillion) in FY2026 RE relative to the FY2025 actuals.
- On the expenditure side, the revenue spending is projected to expand by 7.4% to Rs. 38.7 trillion in FY2026 RE from Rs. 36.0 trillion in the FY2025 actuals. The gross capex is estimated to rise by a tepid 4.2% to a lower-than-budgeted Rs. 11.0 trillion in FY2026 RE from Rs. 10.5 trillion in FY2025 actuals.

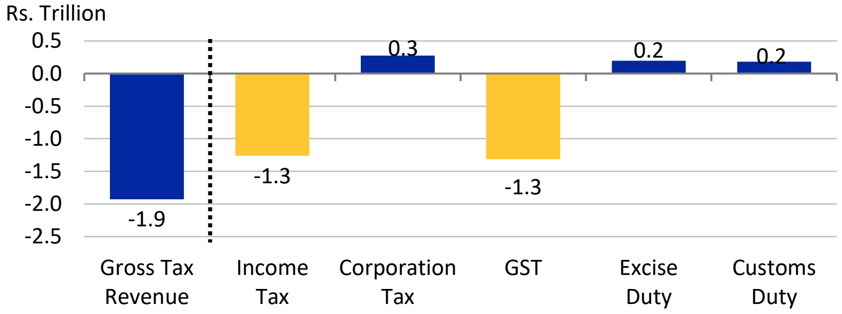
Exhibit 1: Trends in GoI's Key Fiscal Balances

Rs. Trillion	FY2025 Actual (1)	FY2026 BE (2)	FY2026 RE (3)	Variation (3)-(2)	Growth (3)/(1)
Revenue Receipts	30.4	34.2	33.4	-0.8	10.1%
Tax Revenues$	*25.0*	*28.4*	*26.7*	*-1.6*	*7.0%*
Non-Tax Revenues	*5.4*	*5.8*	*6.7*	*0.8*	*24.4%*
Revenue Expenditure	36.0	39.4	38.7	-0.8	7.4%
Revenue Balance	**-5.6**	**-5.2**	**-5.3**		
% of GDP	**-1.7%**	**-1.5%**	**-1.5%**		
Capital Receipts (Non-Debt)^	0.4	0.8	0.6	-0.1	53.1%
Gross Capital Expenditure	10.5	11.2	11.0	-0.3	4.2%
Fiscal Balance	**-15.7**	**-15.7**	**-15.6**		
% of GDP	**-4.8%**	**-4.4%**	**-4.4%**		
Nominal GDP	**330.7**	**357.0**	**357.1**	**0.2**	**8.0%**

$ Net of Refunds, Net of States' share in Central Taxes; ^Recovery of loans and disinvestment receipts; BE: Budget Estimate; RE: Revised Estimate; Source: GoI Budget Documents, CGA, ICRA Research

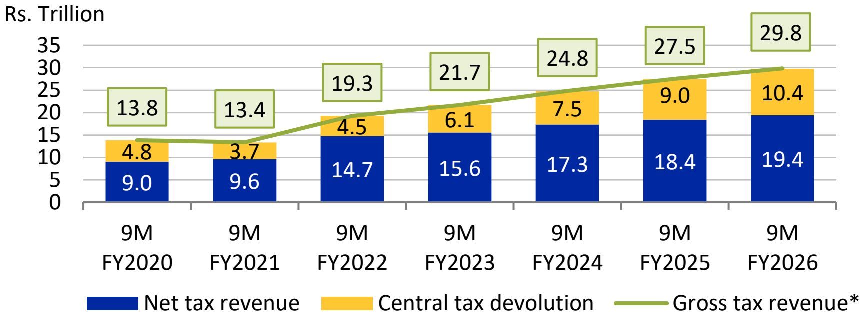
Gross tax revenues pegged at lower-than-anticipated Rs. 40.8 trillion in FY2026 RE, trailing BE of Rs. 42.7 trillion

Exhibit 2: Variation in Gross Tax Revenues and its Constituents in FY2026 RE over BE



Source: GoI Budget Documents, CGA, Ministry of Finance, GoI, ICRA Research

Exhibit 3: April-December Trends in Gross Tax Revenues, Central Tax Devolution and Net Tax Revenues

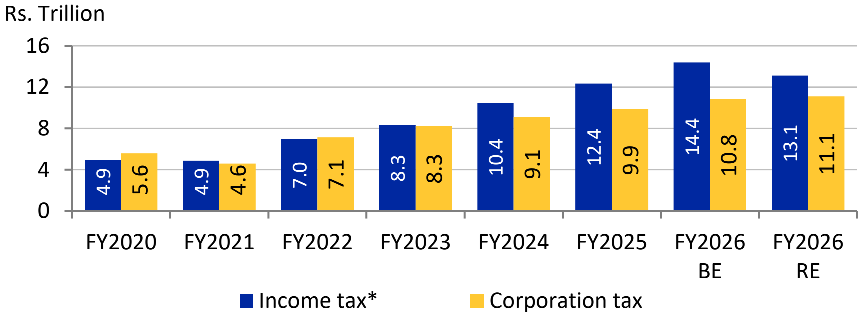


**inclusive of transfers to NCCF/NDRF; Source: GoI Budget Documents, CGA, Ministry of Finance, GoI, ICRA Research*

- The GoI's gross tax revenues have been revised downwards to a lower-than-expected Rs. 40.8 trillion in FY2026 RE relative to the BE of Rs. 42.7 trillion, led by the cut in direct (-Rs. 1.0 trillion) as well as indirect (-Rs. 0.9 trillion; including -Rs. 0.8 trillion for the GST compensation cess) taxes. Notably, provisional data released by the CGA indicated that the gross tax revenues rose by 8.5% YoY to Rs. 29.8 trillion in 9M FY2026 (73.2% of FY2026 RE) from Rs. 27.5 trillion in 9M FY2025 (72.4% of FY2025 actuals). **Based on this, the GoI implicitly expects the gross tax revenues to grow by a muted 4.5% YoY to Rs. 10.9 trillion in Q4 FY2026 from Rs. 10.5 trillion in Q4 FY2025.**
- Consequently, the Central tax devolution to the states has been revised downwards to Rs. 13.9 trillion in FY2026 RE from Rs. 14.2 trillion in the BE. During 9M FY2026, the CTD to the states expanded by 15.2% to Rs. 10.4 trillion (74.5% of FY2026 RE) from Rs. 9.0 trillion in 9M FY2025 (70.0% of FY2025 Actuals). Subsequently, the GoI has released Rs. 1.0 trillion to the states in January 2026, taking the total CTD to Rs. 11.4 trillion in April-January FY2026, 6.1% higher than the year-ago level of Rs. 10.7 trillion. **Accordingly, around Rs. 2.5 trillion remains to be disbursed in February-March FY2026, ~19% higher than the amount of Rs. 2.1 trillion devolved in the year-ago period.**
- After adjustments for tax devolution, the GoI's net tax revenues have been revised downwards by Rs. 1.6 trillion in FY2026 RE, relative to the BE (Rs. 28.4 trillion).

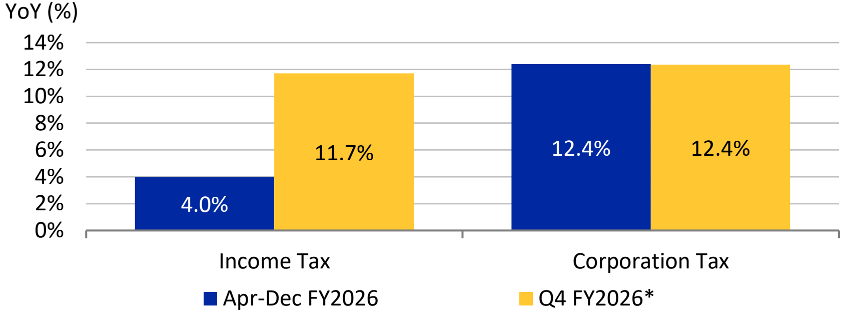
Direct tax collections pared by Rs. 1.0 trillion in FY2026 RE vs. BE; implicitly projected to rise by ~12% YoY in Q4 FY2026

Exhibit 4: Annual trends in GoI's Direct Taxes



**Income tax includes security transaction tax and fringe benefit tax; Actuals for FY2020-25; Source: GoI Budget Documents, CGA, Ministry of Finance, GoI, ICRA Research*

Exhibit 5: GoI's Direct Taxes in 9M FY2026 and Implicit Trend for Q4 FY2026



**Q4 FY2026 is based on FY2026 RE and data for 9M FY2026; Source: GoI Budget Documents, CGA, Ministry of Finance, GoI, ICRA Research*

- As per the FY2026 RE, direct taxes have been revised downwards by Rs. 1.0 trillion from Rs. 25.2 trillion indicated in FY2026 BE. This translates to a YoY expansion of 9.0% over the FY2025 actuals (Rs. 22.2 trillion).
- As anticipated, this was entirely driven by a sharp downward revision of Rs. 1.3 trillion in income tax receipts (to Rs. 13.1 trillion in FY2026 RE from Rs. 14.4 trillion in FY2026 BE); corporate tax collections have been raised to Rs. 11.1 trillion in FY2026 RE from Rs. 10.8 trillion in the BE.
- As per the provisional data provided by the CGA, direct tax collections expanded by 7.8% to Rs. 17.5 trillion in 9M FY2026 (72.1% of FY2026 RE) from Rs. 16.2 trillion in 9M FY2025 (72.9% of FY2025 actuals), led by corporate tax collections (YoY: +12.4%; 75.1% of FY2026 RE), followed by a muted uptick in income tax receipts (+4.0%; 69.6% of FY2026 RE). **Based on the FY2026 RE and 9M FY2026 trends, the GoI's direct tax collections have been projected to record a YoY growth of 12.0% in Q4 FY2026, led by corporation tax (+12.4%) and income tax (+11.7%) collections. This implies a considerably higher pace of expansion than what was recorded during 9M FY2026 for income taxes, which seems slightly ambitious.**

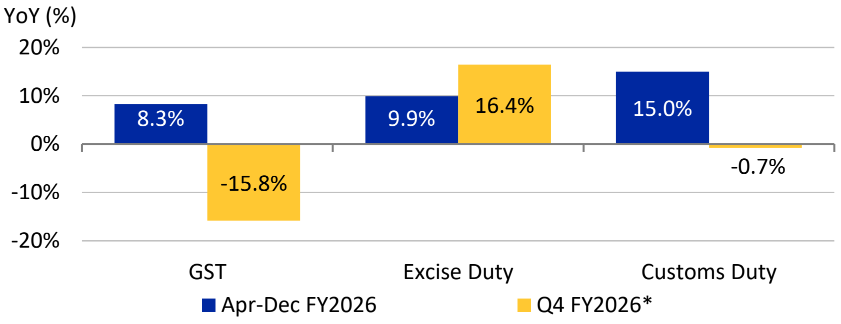
Indirect taxes moderated in FY2026 RE vs. BE, entirely led by downward revision in GST collections

Exhibit 6: Trends in GoI's Indirect Taxes

Rs. Trillion	FY2025 Actuals	FY2026 BE (1)	FY2026 RE (2)	Variation (2) - (1)	Growth (2)/(1)
Customs Duty	2.3	2.4	2.6	0.2	10.8%
Union Excise Duty	3.0	3.2	3.4	0.2	12.1%
CGST + IGST	8.8	10.1	9.6	-0.5	9.4%
GST Compensation Cess	1.5	1.7	0.9	-0.8	-41.6%

Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research

Exhibit 7: GoI's Indirect Taxes in 9M FY2026 and Implicit Trends for Q4 FY2026*

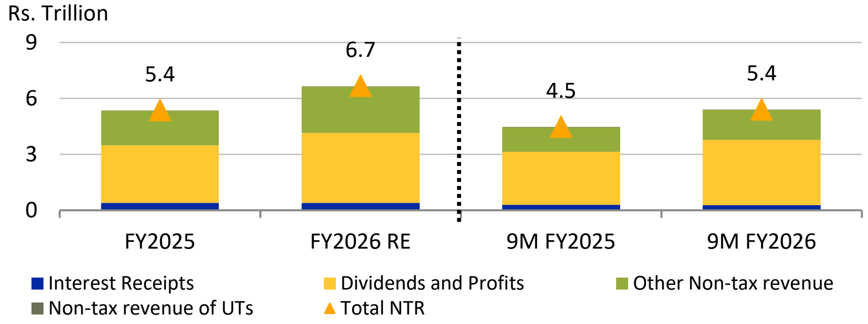


**Q4 FY2026 is based on FY2026 RE and 9M FY2026; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research*

- The FY2026 RE for indirect taxes has been revised downwards by Rs. 0.9 trillion, while entailing an expansion of 5.2% over the FY2025 actuals. This is largely on account of a downward revision in the CGST collections (to Rs. 9.6 trillion in FY2026 RE from Rs. 10.1 trillion in FY2026 BE) as well as the GST compensation cess (to Rs. 0.9 trillion from Rs. 1.7 trillion), reflecting the GST rationalisation and the termination of the cess from end-September 2025. However, this was partly offset by the upward revision in the collections of customs duty (to Rs. 2.6 trillion from Rs. 2.4 trillion) and excise duty (to Rs. 3.4 trillion from Rs. 3.2 trillion) in FY2026 RE, vis-à-vis the BE.
- As per the provisional CGA data, indirect taxes rose by 9.5% to Rs. 12.4 trillion (74.8% of FY2026 RE) in 9M FY2026 from Rs. 11.3 trillion in 9M FY2025 (71.9% of FY2025 actuals). This was led by higher receipts on account of GST (YoY: +8.3%; 78.0% of FY2026 RE; IGST inflows surged in Dec 2025 vs. outflows in year-ago period), customs (+15.0%; 75.8% of FY2026 RE), and union excise duty (+9.9%; 65.2% of FY2026 RE) during 9M FY2026. **Based on these trends, indirect taxes are implicitly estimated to contract by 5.6% YoY in Q4 FY2026 to meet the RE, led by a decline in GST (-15.8%; including GST compensation cess) and customs duty (-0.7%) collections, which appears likely to be achieved. Notably, Union excise duty inflows are projected to rise sharply (+16.4%) in Q4 FY2026.**

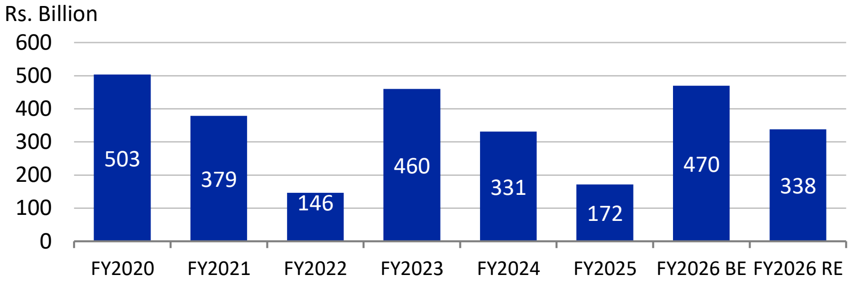
Non-tax revenue estimate raised by Rs. 0.8 trillion in FY2026 RE compared to BE

Exhibit 8: Trends in Non-tax Revenues and its Constituents



Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research

Exhibit 9: Annual Trends in Miscellaneous Capital Receipts

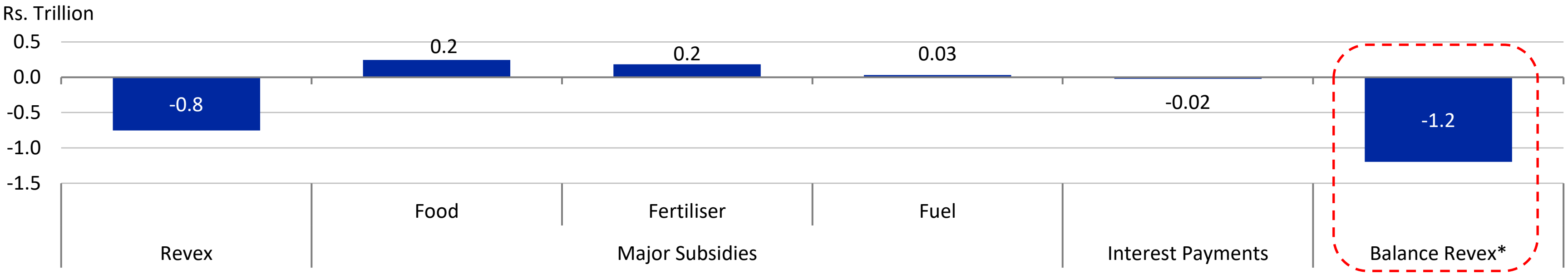


Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research

- The GoI has expectedly raised its estimate for non-tax revenues to Rs. 6.7 trillion in FY2026 RE from Rs. 5.8 trillion in the BE, led by higher dividends and profits (+Rs. 0.5 trillion) and other non-tax revenues (+Rs. 0.4 trillion), while the inflows from interest receipts have been pared marginally by Rs. 0.1 trillion, vis-à-vis the BE.
- As per the CGA data, non-tax revenues stood at Rs. 5.4 trillion in 9M FY2026 (YoY: +20.6%; 80.9% of FY2026 RE), led by dividend and profits (+23.0%; amid record dividend payout by RBI: Rs. 2.7 trillion in FY2026 vs. Rs. 2.1 trillion in FY2025). **This implies that the GoI has projected non-tax revenues to rise to Rs. 1.3 trillion in Q4 FY2026 from Rs. 0.9 trillion in Q4 FY2025, led by interest receipts (+15.7%) as well as dividends and profits (+7.1%).**
- The GoI has marginally reduced the target for miscellaneous capital receipts to Rs. 338.4 billion in FY2026 RE from Rs. 470 billion in the BE. As per CGA data, such receipts stood at Rs. 278.2 billion or 82.2% of FY2026 RE during 9M FY2026, entirely on account of monetisation-related inflows (to Rs. 188.4 billion in 9M FY2026 from nil in 9M FY2025). **This implies that the GoI implicitly projects miscellaneous capital receipts to contract by 26.7% YoY to Rs. 60.2 billion in Q4 FY2026 (Rs. 82.1 billion in Q4 FY2025)**. Additionally, as per the data provided by the Department of Investment and Public Asset Management (DIPAM), the total receipts from disinvestment stood at Rs. 87.7 billion as on February 1, 2026.

In line with expectations, revex cut by Rs. 0.8 trillion in FY2026 RE vs. BE

Exhibit 10: Variation in Revenue Expenditure in FY2026 RE over BE

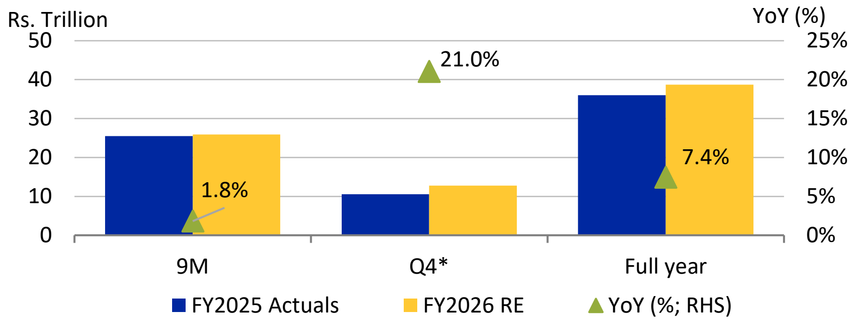


**excluding subsidy and interest payment outgo; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research*

- The GoI had pegged the net cash outgo in its First Supplementary Demand for Grants (1st SDG) for FY2026 at a modest Rs. 414.6 billion, mainly accounting for additional allocations towards fertiliser subsidy, compensation to the OMCs for under-recoveries in domestic LPG and transfer to J&K. Nevertheless, the revenue expenditure has been revised downwards by an expected Rs. 0.8 trillion to Rs. 38.7 trillion in FY2026 RE from the BE of Rs. 39.4 trillion, driven by a downward revision in the balance revex (-Rs. 1.2 trillion; excluding major subsidies and interest payments), even as the outgo towards all major subsidies (+Rs. 0.5 trillion) was raised in FY2026 RE, relative to the budgeted target.
- The subsidy outgo towards food (to Rs. 2.3 trillion in FY2026 RE from Rs. 2.0 trillion in BE amid expectations of higher subsidy to the FCI), fertilisers (to Rs. 1.9 trillion from Rs. 1.7 trillion; additional allocation of Rs. 185.3 billion in 1st SDG), and fuel (to Rs. 0.2 trillion from Rs. 0.1 trillion; Rs. 94.7 billion allocated in 1st SDG) has been raised in FY2026 RE compared to BE.
- The interest payments have been pared marginally to Rs. 12.7 trillion in FY2026 RE from Rs. 12.8 trillion in the BE, entailing a growth of 14.2% YoY.

Revex implicitly projected to rise by ~21% YoY in Q4 FY2026 to meet RE

Exhibit 11: Trends in Revenue Expenditure in 9M FY2026 and Headroom Available for Q4 FY2026*



Headroom available in Q4 FY2025 and Q4 FY2026 is based on FY2025 actuals and FY2026 RE, respectively; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research

Exhibit 12: Trends in Major Subsidies

Rs. Trillion	9M FY2025	9M FY2026	Q4 FY2025* (1)	Q4 FY2026* (2)	Growth (2)/(1)
Major Subsidies	**3.1**	**3.2**	**0.8**	**1.1**	**43.8%**
Fertiliser	1.4	1.6	0.3	0.3	-15.8%
Food	1.6	1.5	0.4	0.8	112.9%
Fuel	0.07	0.09	0.1	0.1	-15.8%

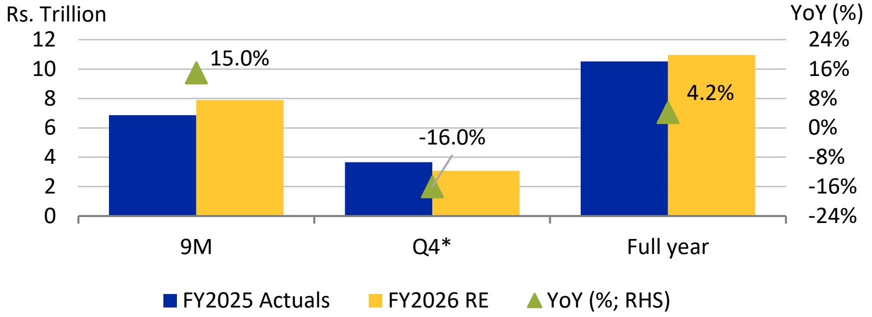
**Q4 FY2025 and Q4 FY2026 is based on FY2025 actuals and FY2026 RE, respectively; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research*

- As per the provisional data released by the CGA, the outgo for major subsidies rose by 3.4% YoY to Rs. 3.2 trillion in 9M FY2026 (73.9% of FY2026 RE) from Rs. 3.1 trillion in 9M FY2025 (79.7% of FY2025 actuals). This was led by a YoY expansion in the fertilisers (YoY: +15.5%; 84.5% of FY2026 RE) and fuel (+26.8%; 57.7% of FY2026 RE) subsidies, even as that for food (-7.7%; 66.3% of FY2026 RE; amid higher loans to FCI) declined during this period.
- Given these trends, the GoI has implicitly estimated the allocation for major subsidies to expand by ~44% YoY to Rs. 1.1 trillion in Q4 FY2026 from Rs. 0.8 trillion in Q4 FY2025, entirely driven by a sharp expansion for food subsidy (+112.9%; though on a low: -53.4% in Q4 FY2025; this could reflect a repayment of the aforementioned loans taken previously by the FCI, being offset by higher release of subsidies), while that for fertilisers (-15.8%) and fuel (-15.8%) is projected to decline. **This would impact the wedge between the GDP and GVA growth in that quarter.**
- Overall, the revenue expenditure rose by a tepid 1.8% to Rs. 25.9 trillion (67.0% of FY2026 RE) during 9M FY2026 from Rs. 25.5 trillion in 9M FY2025 (70.7% of FY2025 actuals). **To meet the FY2026 RE of Rs. 38.7 trillion, the GoI's revenue expenditure needs to rise to ~21% YoY in the ongoing quarter (to Rs. 12.8 trillion in Q4 FY2026 from Rs. 10.5 trillion in Q4 FY2025; -5.3% YoY in Q4 FY2025), although on a low base.**

Capex target pared by Rs. 0.3 trillion in FY2026 RE; needs to contract by 16% YoY in Q4 FY2026 to meet target

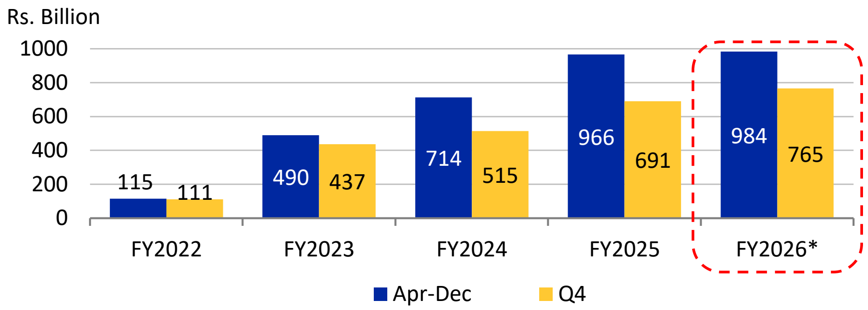
ICRA

Exhibit 13: Trends in Centre's Capital Expenditure in 9M FY2026 and Headroom Available for Q4 FY2026*



**Headroom available in Q4 FY2025 and Q4 FY2026 is based on FY2025 actuals and FY2026 RE, respectively; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research*

Exhibit 14: Capital Transfers to States by the Centre

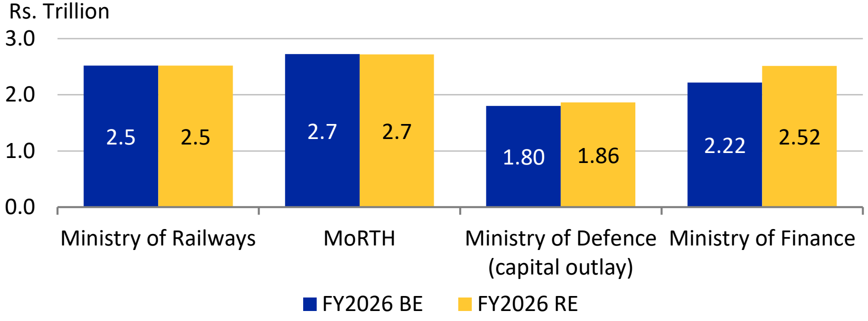


**Data for Q4 FY2026 is based on FY2026 RE and 9M FY2026; Source: CGA, Ministry of Finance, GoI, ICRA Research*

- Capital spending has been pared to Rs. 11.0 trillion in FY2026 RE from Rs. 11.2 trillion in the BE. The data released by the CGA revealed that the GoI's capex had risen by 15.0% to Rs. 7.9 trillion in 9M FY2026 (71.9% of FY2026 RE) from Rs. 6.9 trillion in 9M FY2025 (65.1% of FY2025 actuals).
- **Consequently, the GoI has implicitly projected the capex to contract by a sharp 16.0% YoY in Q4 FY2026 to meet the FY2026 RE (-23.4% in Q3 FY2026), which is likely to weigh on GDP growth during the quarter. An average monthly run rate of ~Rs. 1.0 trillion/month is required during Q4 FY2026 to meet the target, somewhat higher than the Rs. 0.9 trillion/month incurred during 9M FY2026.**
- Under the 'special assistance to states for capital investment' (FY2026 RE: Rs. 1.5 trillion in line with BE), ~53%, or Rs. 0.8 trillion, has been released to the eligible states in FY2026 so far (till January 4, 2026). Overall, the capital transfers to the states (including the 50Y capex loan) stood at Rs. 984 billion in 9M FY2026, slightly higher than Rs. 966 billion in 9M FY2025. **Notably, an additional Rs. 765 billion would need to be incurred on this account during Q4 FY2026 to meet the RE (Rs. 1.7 trillion), which seems likely to be achieved.**

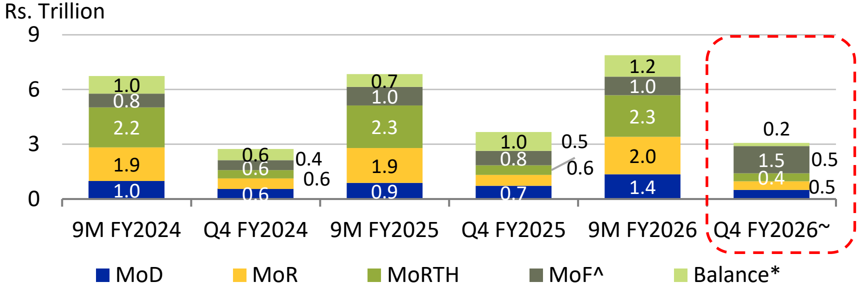
Higher capex by MoF and capital outlay for Defence services in FY2026 RE vs. BE despite downward revision in overall capex

Exhibit 15: Capex by Major Ministries in FY2026 RE vs. BE



Source: Union Budget, GoI, ICRA Research

Exhibit 16: Capex by Ministry of Road Transport and Highways (MoRTH), Ministry of Railways (MoR) and capital outlay on Defence Services (MoD), and Ministry of Finance (MoF)

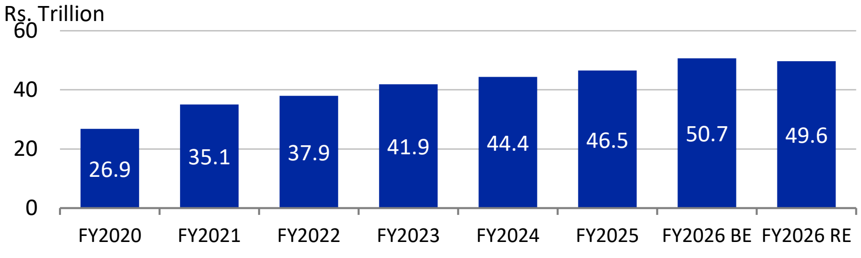


**Balance includes capex by ministries other than MoD, MoR, MoRTH, and MoF; ~Remaining capex required to meet FY2026 RE; ^Includes transfer to states; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research*

- Even though the GoI's total capex has been revised downwards in FY2026 RE relative to the BE, major ministries like the railways and roads have seen an unchanged outlay, while the capital outlay for defence services (MoD: +Rs. 0.06 trillion) and finance (MoF; +Rs. 0.3 trillion) has been revised upwards.
- As per data provided by the CGA, the YoY rise of Rs. 1.0 trillion in capex in 9M FY2026 stemmed from MoD (+Rs. 481 bn), MoR (+Rs. 129 bn), and DFPD (+Rs. 310 bn). The latter reflects the ways means and advance (WMA) loans provided to the FCI by the GoI; this was not included in the FY2026 Budget and is likely to be reversed by March 2026 (from the peak outstanding amount of Rs. 500 billion in October 2025).
- **While the capex by MoF (+88.3% YoY; 9M FY2026 actual: Rs. 1.0 trillion and Q4 FY2026 implicit: Rs. 1.5 trillion) is required to expand sharply in Q4 FY2026 to meet the FY2026 RE, the capex by MoR (-21.3%), MoD (-29.9%), MoRTH (-18.1%) can implicitly contract in the remaining three months and still meet the target.**
- Additionally, the balance portion of the capex (gross capex minus capex incurred by the MoR, MoF, MoRTH, MoD) surged by ~63% YoY in 9M FY2026. **This implies that the balance capex can contract by ~83% YoY in Q4 FY2026 to meet the FY2026 RE.**

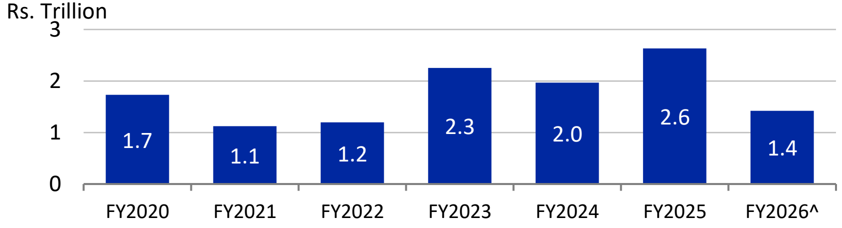
Revised total spending target lower than FY2026 BE by ~Rs. 1.0 trillion amid large revex savings and slightly lower capex

Exhibit 17: GoI's total expenditure has been pared to Rs. 49.6 trillion in FY2026 RE from Rs. 50.7 trillion in the BE, led by downward revision in both revex (-Rs. 0.8 trillion) and capex (-Rs. 0.3 trillion)



Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research

Exhibit 19: The GoI's expenditure saving is estimated at Rs. 1.4 trillion in FY2026 (based on the RE), lower than the last three years (Rs. 2.3 trillion per year during FY2023-25)



*NSDG: Net outgo under Supplementary Demand for Grants; Actuals for FY2019-24; Aggregate expenditure savings of the GoI are computed by adding net cash outgo under the SDG to the budgeted total expenditure and subtracting actual spending incurred in each fiscal; *Second batch of SDG for FY2019 is not available in the public domain and hence savings might be modestly lower than Rs. 1.8 trillion; ^Based on FY2025 RE; Source: Union Budget, GoI, ICRA Research*

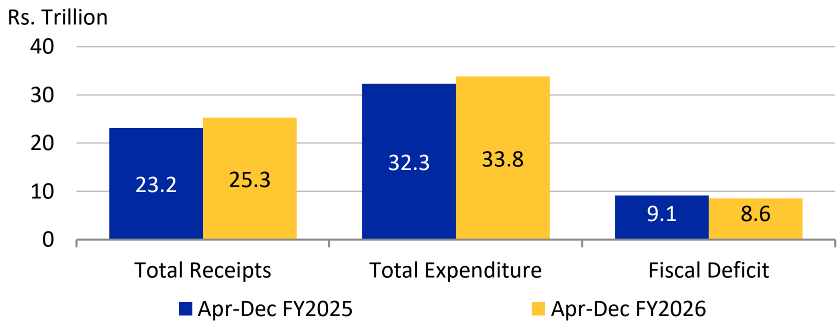
Exhibit 18: Interestingly, revex by the Ministry of Housing and Urban Affairs (-Rs. 350 billion) has been pared quite sharply, followed by MoF (-Rs. 282 billion)

	Rs. Billion					YoY (%)	
	FY2026 BE (1)	FY2026 RE (2)	(2) – (1)	9M FY2026	Q4 FY2026*	9M FY2026	Q4 FY2026*
Revex excl. interest payments	**26,679**	**25,947**	**-732**	**16,820**	**9,127**	**-3.2%**	**22.2%**
Finance excl. interest payments	4,411	4,129	-282	1,912	2,217	-28.3%	5.5%
Defence	4,888	5,351	463	3,817	1,534	6.7%	42.7%
Consumer affairs & food and public distribution	2,157	2,383	226	1,589	794	-9.8%	105.0%
Rural development	1,904	1,887	-16.5	971.2	916.2	-14.9%	40.6%
Chemicals & fertilisers	1,619	1,912	293	1,504	407	10.4%	-16.2%
Home affairs	1,487	1,543	56	1,210	332	7.7%	15.7%
Agriculture	1,377	1,333	-44	835	498	-1.0%	-10.0%
Education	1,286	1219	-67	659.6	559.8	-2.9%	30.7%
Health & family welfare	962	944	-18	651.1	293.1	-0.1%	26.5%
Housing & urban affairs	592	242	-350	80.7	161.6	-46.5%	146.2%
Communications	554	548	-6	508.5	39.6	-0.9%	-81.6%
Others	5442	4,456	-986	3,082	1,374	5.8%	39.2%

**Required growth rate based on FY2026 RE and 9M FY2026 data; Source: CGA, Ministry of Finance, GoI; ICRA Research*

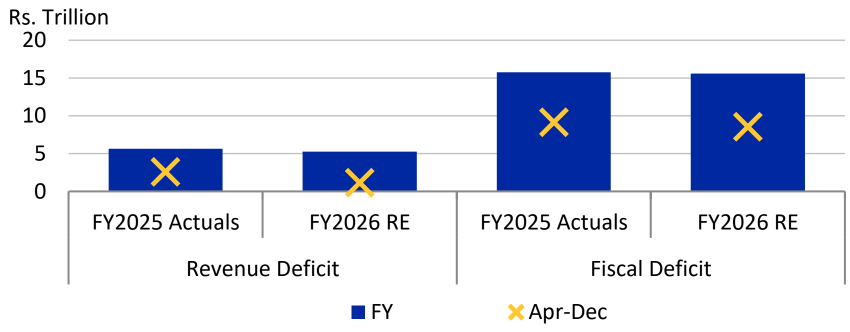
Fiscal deficit target for FY2026 estimated at Rs. 15.6 trillion or 4.4% of GDP in RE, similar to BE

Exhibit 20: Trends in Revenues and Expenditure of the GoI



Source: CGA, Ministry of Finance, GoI, ICRA Research

Exhibit 21: Revenue and Fiscal Deficits



Source: CGA, Union Budget, Ministry of Finance, GoI, ICRA Research

- As per the provisional data released by the CGA, the revenue deficit compressed to Rs. 1.1 trillion in 9M FY2026 from Rs. 2.6 trillion in 9M FY2025, led by a higher uptick in revenue receipts (+8.2%), relative to the revenue expenditure (+1.8%). Consequently, the GoI's fiscal deficit narrowed to Rs. 8.6 trillion in 9M FY2026 from Rs. 9.1 trillion in 9M FY2025, despite a sharp uptick in capital spending (+15.0%) during this period. The aforesaid potential offsetting of food subsidy and repayment of loans taken by the FCI in Q4 FY2026 would enlarge the revenue deficit while being neutral for the fiscal deficit.
- The GoI's revenue and fiscal deficits stood at 21.6% and 54.9% of the FY2026 RE, respectively, in 9M FY2026, lower than the prints of 45.4% and 58.1% of the FY2025 actuals, respectively, in 9M FY2025.
- The GoI has estimated the revenue deficit to be slightly higher at Rs. 5.27 trillion in FY2026 RE than the BE of Rs. 5.24 trillion. However, it expects the fiscal deficit to marginally narrow to Rs. 15.58 trillion in FY2026 RE, relative to Rs. 15.69 trillion in the BE, with a shortfall in tax revenue and miscellaneous capital receipts being largely offset by the lower-than-budgeted revenue and capital expenditure. **Based on the slightly higher nominal GDP print in FY2026 (RE: Rs. 357.1 trillion vs. BE: Rs. 357.0 trillion), the fiscal deficit is expected to print at 4.4% of GDP, in line with the BE of 4.4% of GDP, and in line with ICRA's expectations.**

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FISCAL ANALYSIS AS PER FY2027 BE

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GoI placed debt/GDP target at 55.6% in FY2027 BE vs. 56.1% in FY2026 RE, implying slower-than-expected debt consolidation

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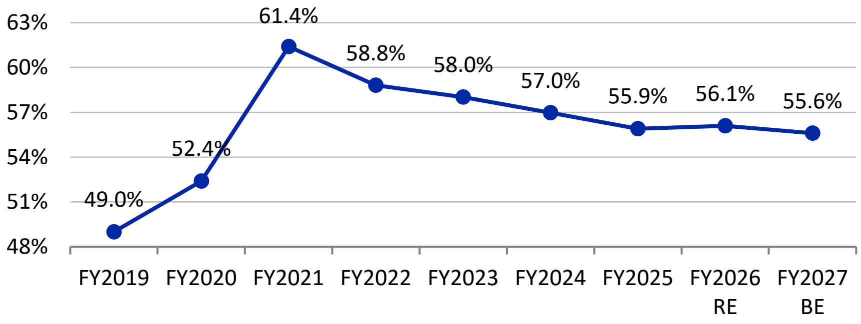
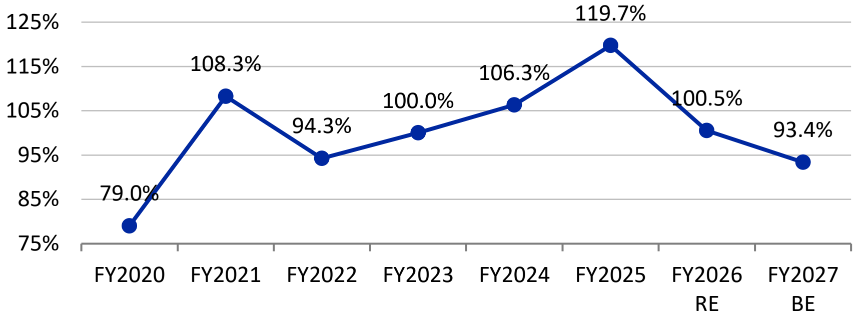
Exhibit 22: Debt-to GDP Ratio* as per Union Budget for FY2027 and Updated GDP Numbers



**Debt is based on FRBM definition; Source: Budget documents; ICRA Research*

Exhibit 23: Ratio of Fiscal Deficit to Change in Liabilities (%)



Source: Budget documents; ICRA Research

- The GoI highlighted that the fiscal policy strategy for FY2027 will continue to be guided by the debt glide path as indicated in the Union Budget for FY2026. Accordingly, the medium-term aim to target a debt/GDP ratio of 50±1% by March 31, 2031 remains unchanged, with the fiscal deficit acting as the operational target.
- In line with this, the GoI has pegged the Central Government debt (as per the FRBM definition) at 55.6% of GDP in FY2027 BE, 50 bps lower than the FY2026 RE of 56.1%. The pace of debt consolidation is somewhat slower than ICRA's expectation. Nevertheless, this implies a marginal fiscal compression, with the fiscal deficit easing to 4.3% of GDP in FY2027 BE from 4.4% in FY2026 RE.
- Notably, the upcoming GDP release with the new base series (base year: 2022-23 vs. current: 2011-12) may well result in a larger absolute GDP, which could lower the GoI's debt/GDP ratio for FY2027 from the current estimate of 55.6%, and bring it closer to the goal of 50±1% by FY2031. This could lead to a shallower debt consolidation trajectory over the next five years, creating some fiscal headroom, especially to absorb the impact of the looming pay revision.

GoI's fiscal deficit target pegged at 4.3% of GDP in FY2027

- The GoI's revenue receipts are budgeted to grow by 5.7% in FY2027 BE (+10.1% in FY2026 RE), attributed to a healthy 7.2% expansion in net tax revenues, exceeding ICRA's forecast of ~5%. However, non-tax revenues have been targeted to decline by a marginal 0.2% in FY2027 BE (over FY2026 RE), in contrast to ICRA's expectation of a ~5% expansion.
- On the expenditure side, revenue spending is estimated to increase by 6.6% in FY2027, slightly higher than ICRA's projection (ICRA exp: +4.0%). Consequently, the revenue deficit is budgeted to widen to Rs. 5.9 trillion in FY2027 BE from Rs. 5.3 trillion in FY2026 RE. However, as a percentage of GDP, the revenue deficit is estimated to remain stable at 1.5%, in line with the FY2026 RE, the lowest level since FY2008.
- The fiscal deficit is budgeted at Rs. 17.0 trillion in FY2027 BE (ICRA exp.: Rs. 16.9 trillion), higher than Rs. 15.6 trillion in FY2026 RE, with a sharp 11.5% growth in capital expenditure to Rs. 12.2 trillion (ICRA exp.: Rs. 13 trillion) over the FY2026 RE. Besides, the target for miscellaneous capital receipts has been enhanced to Rs. 800 billion in FY2027 BE. With nominal GDP growth forecast at 10.0% in FY2027 (ICRA's exp.: +9.8%), the fiscal deficit as a proportion of GDP is budgeted to dip to 4.3% in FY2027 BE from 4.4% in FY2026 RE, in line with ICRA's forecast.
- The detailed assessment of revenue and expenditure accounts is shared in the subsequent slides.

Exhibit 24: Trends in GoI's Key Fiscal Balances

Rs. Trillion	FY2026 RE (1)	FY2027 BE (2)	Growth in FY2026*	Growth in FY2027 (2/1)
Revenue Receipts	33.4	35.3	10.1%	5.7%
Tax Revenues$	*26.7*	*28.7*	*7.0%*	*7.2%*
Non-Tax Revenues	*6.7*	*6.7*	*24.4%*	*-0.2%*
Revenue Expenditure	38.7	41.3	7.4%	6.6%
Revenue Balance	**-5.3**	**-5.9**	**-6.7%**	**12.4%**
% of GDP	**-1.5%**	**-1.5%**		
Capital Receipts (Non-Debt)^	0.6	1.2	53.1%	84.9%
Gross Capital Expenditure	11.0	12.2	4.2%	11.5%
Fiscal Balance	**-15.6**	**-17.0**	**-1.0%**	**8.8%**
% of GDP	**-4.4%**	**-4.3%**		
Nominal GDP	**357.1**	**393.0**	**8.0%**	**10.0%**

*$ Net of Refunds, Net of States' share in Central Taxes, ^Recovery of loans and other receipts; *Growth in FY2026 RE over FY2025 Actuals; Source: GoI Budget Documents, CGA, ICRA Research*

Budgeted growth of 8% in gross tax revenues for FY2027 appears largely plausible

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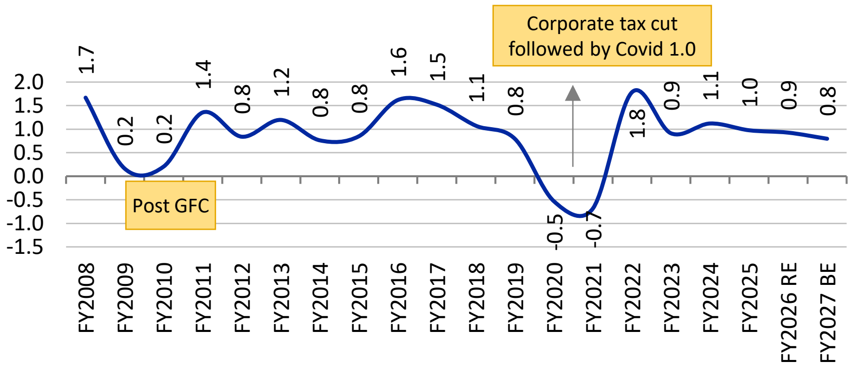
Exhibit 25: Gross Tax Revenues of GoI

Rs. Trillion	FY2025 Actuals	FY2026 RE (1)	FY2027 BE (2)	Variation (2-1)	Growth (%; 2/1)
Gross tax revenues	**38.0**	**40.8**	**44.0**	**3.3**	**8.0%**
Direct taxes~	22.2	24.2	27.0	2.8	11.4%
Indirect taxes	15.7	16.6	17.1	0.5	3.0%
o/w GSTCC	1.5	0.9	0.0	-0.9	---

~Including STT amount under the PIT head; Source: GoI Budget Documents; CGA; ICRA Research

Exhibit 26: Tax Buoyancy of GoI



Tax buoyancy is a proportion of % change in Gross tax revenues and % change in Nominal GDP growth; Source: Union Budget; CGA; NSO; ICRA Research

- **The GTR is budgeted to grow by 8.0% YoY to Rs. 44.0 trillion in FY2027 (ICRA P: +7.1%) over FY2026 RE of Rs. 40.8 trillion, while trailing the nominal GDP growth of 10.0% (+8.0% in FY2026 as per the first advance estimated/FAE). Accordingly, the tax buoyancy is estimated at 0.8 in FY2027, lower than 0.9 in FY2026; this is the lowest since FY2019, barring the pandemic-driven decline seen during FY2020-2021.**
- The GoI is likely to face some revenue growth implications on account of GST rate cuts having been introduced from end-September 2025. Moreover, the pace of expansion in GTR is partly dampened by the ceasing of the GST compensation cess in FY2027, which is largely on anticipated lines, even as the rise pencilled in for excise duty appears to be slightly optimistic. Excluding the GST compensation dess from the FY2026 RE (ended in FY2026), the indirect tax growth is pegged at a stronger 8.8% in FY2027. With this, the GTR growth is estimated to be sharper at 10.4% in FY2027, entailing a tax buoyancy of 1.0 vs. 1.2 in FY2026 RE.

Direct taxes envisaged to grow by a robust 11.4% in FY2027

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Direct tax

The GoI has budgeted a sharp YoY expansion of 11.4% in direct tax collections to Rs. 27.0 trillion in FY2027 BE (+9.0% in FY2026 RE), slightly lower than the CAGR of ~11.8% seen over the past decade ending FY2024.

Several direct tax proposals have been announced in the Budget, such as the implementation of the new Income Tax Act w.e.f April 1, 2026, rationalisation of the TDS/TCS, reducing compliance burden, encouraging voluntary compliance and promoting ease of doing business. Further, several tax initiatives have also been brought out for supporting the IT sector and attracting global business and investment.

Corporation tax

The FY2027 Budget has built in a strong growth of 11.0% in corporate tax collections, amounting to Rs. 12.3 trillion, over the RE of Rs. 11.1 trillion for FY2026. This also echoes with ICRA's views of continued momentum in corporates' profitability and taxes, although rising global commodity prices and rapidly evolving supply chains may exert some pressure. Moreover, as a proportion of the GDP, such collections are budgeted at 3.1% for FY2027, in line with FY2026 RE, while exceeding the 3.0% of GDP seen in FY2025.

Personal income tax

Personal income tax (PIT; including security transaction tax; STT) collections are estimated to increase to Rs. 14.7 trillion in FY2027 BE (3.7% of GDP) on the back of a lower-than-budgeted base of Rs. 13.1 trillion in FY2026 RE (3.7% of GDP). Following a resilient trend in the post-Covid era, the PIT collections slowed down in FY2026 owing to sizeable tax relief provided to low-to-middle income taxpayers under the 'new regime'. Looking ahead, the new Income Tax Act, 2025 will come into effect from April 1, 2026, and the FY2027 target appears largely achievable, the details of which are discussed in the next slide.

Direct tax proposals aim to make compliance easier with redesigned forms; STT rates hiked on futures and options trading

Change in deadline for filing tax returns for economic agents: The Government has extended the timeline for filing revised returns to March 31 from December 31, although with a nominal fee applicable. Moreover, the due dates for filing tax returns for individuals filing ITR 1 and 2 will continue to have a deadline of July 31, while that for non-audit business cases and trusts has been changed to August 31. Besides, taxpayers can now update the return to show any additional income, even after reassessment proceedings have been initiated at 10% tax rate over and above the rate applicable for the relevant year (facility available for a period of 4 years).

Rationalisation of tax collection at source (TCS) rates: The TCS rate on education and medical purposes under the Liberalised Remittance Scheme (LRS) of an amount or aggregate of the amount exceeding Rs. 1 million has been reduced to 2% from 5%, while the rate on overseas tour and packages has been pared to 2% from 5%/20%. The sale of alcoholic liquor for human consumption, tendu leaves and scrap will levy a TCS of 2% in FY2027, as against 1%, 5% and 1%, respectively.

STT rate increase: To provide reasonable course correction in the F&O segment in the capital market and generate additional revenues, the GoI has proposed to raise the STT on futures to 0.05% from 0.02% at present. Besides, the STT on options premium and the exercise of options is proposed to be raised to 0.15% from the present rate of 0.1% and 0.125%, respectively.

Capital Gain exemption for SGBs: In addition, the GoI has proposed to provide exemption from capital gains tax to all issuances of sovereign gold bonds (SGBs) by the RBI.

Tax Structure under New Tax Regime:

Tax slabs (%)	Revised (Rs.)
Nil	0 to 4 lakh
5%	4-8 lakh
10%	8-12 lakh
15%	12-16 lakh
20%	16-20 lakh
25%	20-24 lakh
30%	Above 24 lakh

Additional proposals: The GoI has proposed to remove deduction in respect of any interest expenditure incurred in relation to dividend income or income from units of mutual funds. Further, it also exempts any interest awarded by the Motor Accident Claim Tribunals to a natural person. Additionally, tax forms have been redesigned for better compliance by taxpayers and avoid any difficulty.

Indirect tax growth of 3% in FY2027 factors in YoY fall in GST revenues after rate cuts, end of compensation cess

Indirect tax

The indirect tax collections are budgeted to grow by a tepid 3.0% in FY2027 BE, after a 5.2% increase in FY2026 RE. This entails a YoY dip in GST revenues (to -2.6% in FY2027 BE from +1.9% in FY2026 RE, impacted by the cessation of GST compensation cess collections) and slowdown in growth in customs duty inflows (to +5.0% from +10.8%) in FY2027 BE. In contrast, the growth forecast for Union excise duty is slightly optimistic (to +15.6% in FY2027 BE from +12.1% in FY2026 RE).

GST

With the cessation of GST compensation cess and reduction in rates across a large set of items in September 2025, the GST collections are budgeted to fall by 2.6% to Rs. 10.2 trillion in FY2027 BE. The growth in CGST inflows is budgeted to rise to 6.3% in FY2027 from 5.4% in FY2026, supported by upbeat consumption post the GST rate cuts.

Customs duty

Customs duty collections are estimated to rise by 5.0% to Rs. 2.7 trillion in FY2027 BE over the higher-than budgeted base of FY2026 (Rs. 2.6 trillion; +10.8% YoY), amid the cuts in duties across several items. Notably, the IMF's growth forecast for world output trails the historical levels (at +3.3%/+3.2% in CY2026-2027 vs. +3.7% seen in 2000-2019), which is likely to have a bearing on trade flows. Besides, the GoI has also signed FTAs with the EU and the UK which could have some bearing on customs duty collections. The changes made in customs duties are as follows:

Reduction in customs duty to promote domestic manufacturing, lower input cost: Critical minerals like monazite (to nil from 2.5%), the renewable energy segment (sodium antimonate for manufacturing solar glass: to nil from 7.5%), capital goods used in lithium-ion cells for battery (to nil from applicable rates), nuclear energy (to nil from 7.5%), electronics (inputs used in manufacture of microwave ovens - to nil from applicable rates under tariff item 8516 50 00), civil aviation (parts of aircraft - to nil), defence (aircraft maintenance - to nil), drugs and medicines (on 17 new drugs/medicines - to nil from 5%/10%), and imports of personal use (9,804 heads - to 10% from 10%/20%).

Increase in customs duty: Chemicals (potassium hydroxide: to 7.5% from nil), umbrella and its parts (to 20% or Rs. 60/piece from 20%).

Key recommendations of the 16th FC for its award period FY2027-FY2031, which have been accepted by the GoI

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The 16th FC has retained the vertical devolution for state governments at 41% of the Union taxes (excluding cess and surcharges) for its award period, FY2027–FY2031. The horizontal devolution criterion recommended by the 16th FC are Population (17.5%), Demographic Performance (10%), Area (10%), Forest (10%), Per Capita GSDP Distance (42.5%) and Contribution to GDP (10%).

Grants for local bodies and disaster relief have been recommended at Rs. 7.9 trillion and Rs. 1.6 trillion, respectively, totaling Rs. 9.5 trillion for FY2027–FY2031, while the revenue deficit grant has been discontinued. The grants recommended by the 16th FC are ~18% higher than the transfer of Rs. 8.0 trillion made during the 15th FC's award period FY2022–FY2025 and FY2026 RE.

The 16th FC has recommended that fiscal deficit targets for the 28 states be capped at 3% of GSDP. Interest-free capex loans are expected to be over and above this borrowing ceiling, in line with the prevailing guidelines.

Centre's net tax revenue growth budgeted at 7.2% in FY2027

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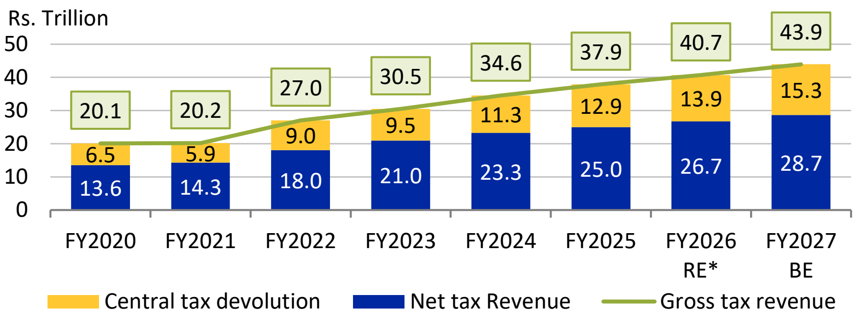
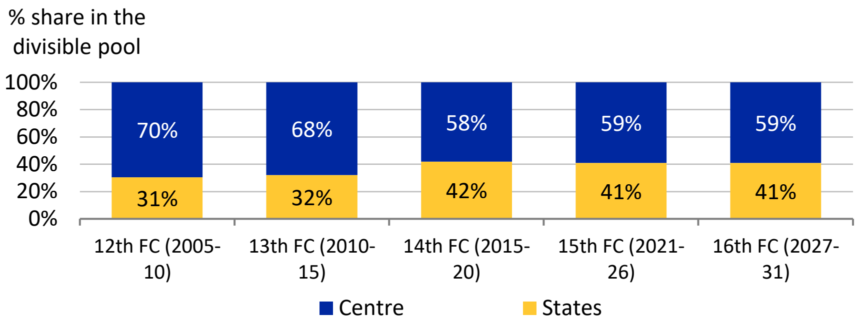
Exhibit 27: Trends in Central Tax Devolution, Centre's Gross and Net Tax Revenues



**Includes Rs. 90.8 billion recoverable from States on account of prior period adjustment of CTD to be made in FY2026; Source: Union Budget Documents, GoI; ICRA Research*

Exhibit 28: Share of Divisible Pool between Centre and States since 12th FC's Award Period



Source: Finance Commission of India, GoI; ICRA Research

- The 16th Finance Commission recommended that the share of states in the divisible pool (or central tax devolution; CTD) be pegged at 41% for its award period of FY2027 to FY2031, in line with the share included in the 15th FC. However, the effective rate of devolution, relative to the gross tax revenues (GTR) of the GoI, tends to be closer to 30-33%, as cess and surcharges included in the GTR are not a part of the divisible pool.
- **In FY2027 BE, the tax devolution to the states is envisaged at Rs. 15.3 trillion; this entails a YoY growth of 9.6%, higher than the growth budgeted for GTR (+8.0%).** Notably, the GoI has decided to replace the existing GST compensation cess on pan, tobacco and related products with a "Health and National Security Cess" on pan masala and an additional excise duty on tobacco and related products, over and above the GST tax rate of 40%. This new cess will not be a part of the divisible pool, solely accruing to the Centre.
- **Overall, after the CTD adjustment, the GoI's net tax revenues are budgeted at Rs. 28.7 trillion for FY2027, entailing a YoY growth of 7.2%.**

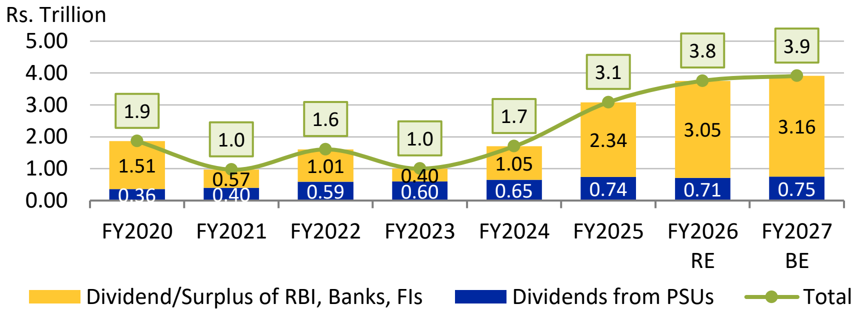
Non-tax revenues budgeted to remain flattish at Rs. 6.7 trillion in FY2027, although on a high base

Exhibit 29: Non-tax Revenues and Its Components

Rs. Trillion	FY2026 RE (1)	FY2027 BE (2)	Growth (2)/(1)
Non-Tax Revenue (A)	**6.68**	**6.66**	**-0.2%**
- Interest Receipts (B)	0.40	0.42	4.0%
- Dividends and Profits (C)	3.76	3.91	4.1%
- Other Communication Services (D)	1.78	1.17	-34.2%
Balance (E=A-B-C-D)	0.74	1.16	57.0%

Source: Union Budget, GoI, ICRA Research

Exhibit 30: Dividends from PSUs and RBI

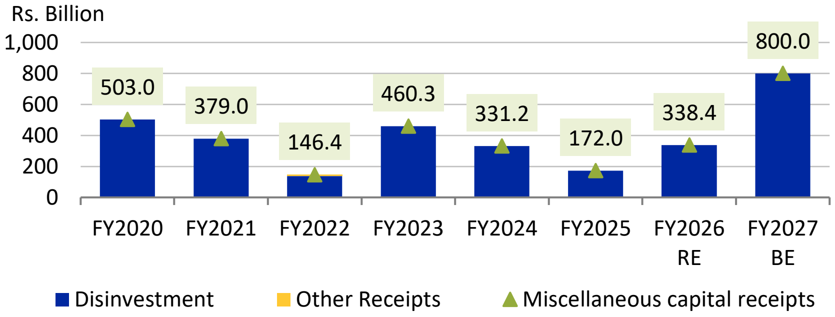


Source: Union Budget, GoI, ICRA Research

- The non-tax revenue component has become a major source of revenues for the GoI in the recent period, with its share in revenue receipts rising to 18.9% in FY2027 BE from 14.7% in FY2024 Actuals. Such receipts are budgeted to stabilise at Rs. 6.66 trillion in FY2027 BE, largely in line with Rs. 6.68 trillion in FY2026 RE.
- Dividends and profits (to Rs. 3.9 trillion from Rs. 3.8 trillion) and interest receipts (to Rs. 0.42 trillion from Rs. 0.40 trillion) are forecasted to grow by 4% each in FY2027, as per the BE, while the receipts from 'Other communication services' are estimated to moderate (to Rs. 1.2 trillion from Rs. 1.8 trillion) compared to FY2026 RE.
- The dividends from the RBI, nationalised banks, FIs are budgeted to remain elevated at Rs. 3.16 trillion in FY2027, compared to Rs. 3.05 trillion in FY2026 RE, even as ICRA foresees some moderation in the RBI dividend in the coming fiscal from the record Rs. 2.7 trillion released in FY2026, owing to a possible dip in foreign income, as per our assessment. The budgeted dividend receipts from the PSEs (to Rs. 0.75 trillion from Rs. 0.71 trillion) seems reasonable.
- The balance portion of non-tax revenues is estimated to rise by a sharp 57% to Rs. 1.2 trillion in FY2027 BE from Rs. 0.7 trillion in FY2026 RE.

Miscellaneous capital receipt target of Rs. 800 billion for FY2027 appears slightly optimistic

Exhibit 31: Trends in Miscellaneous Capital Receipts (disinvestment and other receipts)



Source: Union Budget, GoI, ICRA Research

Exhibit 32: Strategic Disinvestments- EOIs in Pipeline, Available and Closed

EOIs- in Pipeline	▪ Rashtriya Ispat Nigam Ltd., ConCor, AIESL, AIASL, AAAL
EOIs – Currently Available	▪ None
EOIs –Closed (Stage 2 transaction)	▪ NMDC Steel, IDBI Bank Ltd., Shipping Corp. of India Ltd., BEML Ltd., PDIL, HLL Lifecare, IMPCL

As on January 31, 2026; Source: DIPAM, ICRA Research

- The GoI has placed the miscellaneous capital receipt target at higher-than-expected Rs. 800 billion in FY2027 BE (ICRA's exp: Rs. 600 billion), significantly higher than pared target of Rs. 338.4 billion included for FY2026 wherein activity slowed down given elevated global uncertainty and volatile financial conditions.
- Additionally, the GoI also garners inflows from the asset monetisation of national highways, etc., which is a component of miscellaneous capital receipts, although the target for the same has not been specified explicitly in FY2027 Budget.
- There are some major privatisation bids, whose expressions of interest (EoIs) are either in the pipeline or in Stage 2, such as the IDBI Bank and NMDC Steel. The disinvestment process for IDBI Bank is likely to be finalised in the upcoming fiscal. However, the Government highlighted that actual realisation of other miscellaneous capital receipts depends on the prevailing market conditions during the year.

GoI's revenue spending to grow by 6.6% in FY2027 amid sustained double-digit growth in interest burden

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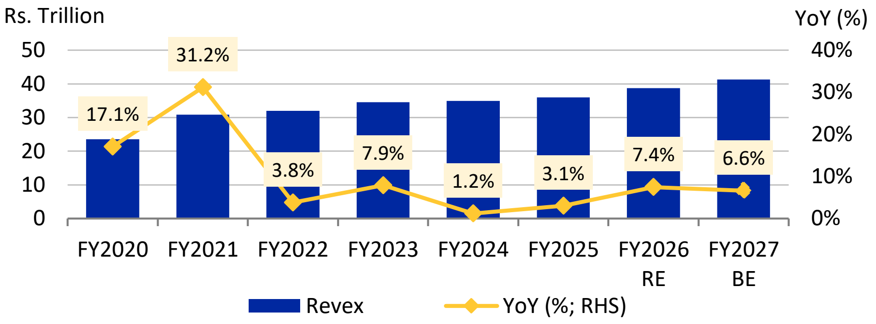
Exhibit 33: Revex and Major Heads

Rs. Trillion	FY2026 RE	FY2027 BE	Growth (%)
Revenue expenditure (1)	**38.7**	**41.3**	**6.6%**
Interest payments (2)	**12.7**	**14.0**	**10.2%**
Major subsidies (3)	**4.30**	**4.11**	**-4.5%**
-Food	*2.28*	*2.28*	*-0.2%*
-Fertiliser	*1.86*	*1.71*	*-8.4%*
-Fuel	*0.15*	*0.12*	*-20.1%*
Salaries and pensions (4)	***8.0***	***8.3***	**3.6%**
Balance revex (5= 1-2-3-4)	**13.7**	**14.8**	**8.6%**

Source: Union Budget, GoI, ICRA Research

Exhibit 34: Annual Trends in Revenue Expenditure

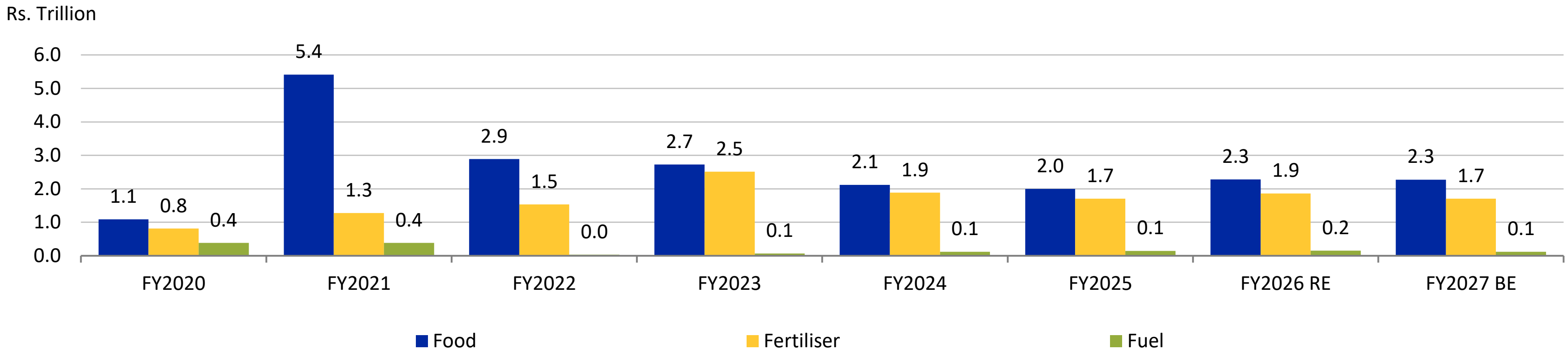


Source: Union Budget, GoI, ICRA Research

- After some compression in FY2026 RE (vs. its BE), the GoI has indicated its revenue expenditure to grow by a moderate 6.6% to Rs. 41.3 trillion in FY2027 BE, slightly exceeding ICRA's forecast of 4.0%.
  - Growth in interest payments has been pegged at an unpalatable 10.2% amounting to Rs. 14.0 trillion in FY2027 BE. This accounts for 26.3% of the GoI's total expenditure (up from 25.7% in FY2026 RE and 24.0% in FY2025 A), and a sizeable ~40% of their revenue receipts in FY2027 (38.1% in FY2026 RE).
  - The total allocation towards major subsidies has been reduced to Rs. 4.1 trillion in FY2027 BE from Rs. 4.3 trillion in FY2026 RE.
  - Additionally, the salaries and pensions (including Defence) have been budgeted to grow by a tepid 3.6% in FY2027 BE over FY2026 RE, a relief ahead of the looming 8th Central Pay Commission's recommendations. The budgetary implications in the form of a surge in committed expenditure burden will be evident in the FY2028 Budget to factor in arrear payments of 15 months.
  - Besides, the balance part of revex has been estimated to grow by 8.6% in FY2027 BE, the details of which are included in the ensuing slides.

Aggregate outlay on food, fuel and fertiliser subsidies reduced by Rs. 0.2 trillion to Rs. 4.1 trillion in FY2027

Exhibit 35: Annual Trends in Major Subsidies



Source: CGA, Ministry of Finance, GoI; ICRA Research

- Within major subsidies, the GoI has placed the food subsidy bill at Rs. 2.3 trillion in FY2027 BE, in line with the revised outgo estimated in FY2026 RE, possibly factoring in a healthy rabi production of crops like rice and wheat and elevated procurement targets and costs.
- However, the subsidy allocation for fertilisers has been budgeted at Rs. 1.7 trillion in FY2027, slightly lower than Rs. 1.9 trillion in FY2026 RE as well as ICRA's forecast (Rs. 1.9 trillion). Besides, the subsidy allocation for petroleum has been estimated to dip to Rs. 120.8 billion in FY2027 BE from the FY2026 RE of Rs. 151.2 billion, remaining quite modest vis-à-vis the levels seen before FY2022.
- Nevertheless, the GoI may recalibrate the subsidy requirement during the year and announce additional allocation in the supplementary demand for grants if required, as was typically seen in the previous years.

Allocations for VB-GRAM G, Jal Jeevan Mission and PMAY accounted for bulk of YoY increase in balance revex in FY2027 BE

- The allocation for balance/discretionary revex (i.e. revex less of interest payments, major subsidies, and salaries and pensions) is budgeted at Rs. 14.8 trillion in FY2027, Rs. 1.2 trillion higher than level included in FY2026 RE.
- Bulk of the increase in balance revex in FY2027 BE over FY2026 RE has stemmed from higher allocation for Jal Jeevan Mission (to Rs. 0.7 trillion in FY2027 BE from Rs. 0.2 trillion in FY2026 RE) and Pradhan Mantri Awas Yojana (PMAY; to Rs. 0.8 trillion from Rs. 0.4 trillion).
- Notably, the GoI has made fresh allocation for the new VB-G RAM-G scheme at Rs. 0.96 trillion in FY2027 BE. After including MGNREGA amount, the net increase in FY2027 BE over FY2026 RE is Rs. 0.4 trillion.
- The allocation towards the GECL (to Rs. 0.1 trillion from nil), PM Gram Sadak Yojana (to Rs. 0.19 trillion from Rs. 0.11 trillion), Samagra Shiksha (to Rs. 0.42 trillion from Rs. 0.38 trillion) and Saksham Angadwadi and POSHAN 2.0 (to Rs. 0.23 trillion from Rs. 0.21 trillion) has been increased marginally in FY2027 BE compared to the FY2026 RE.
- In contrast, the GoI has reduced the allocation for FC Grants (to Rs. 1.3 trillion from Rs. 1.5 trillion), PMGKAY (to Rs. 2.27 trillion from Rs. 2.28 trillion), and PLI scheme (to Rs. 0.13 trillion from Rs. 0.14 trillion), while the outlays for Crop Insurance scheme and Income support scheme have been kept unchanged at Rs. 0.12 trillion and Rs. 0.64 trillion, respectively.

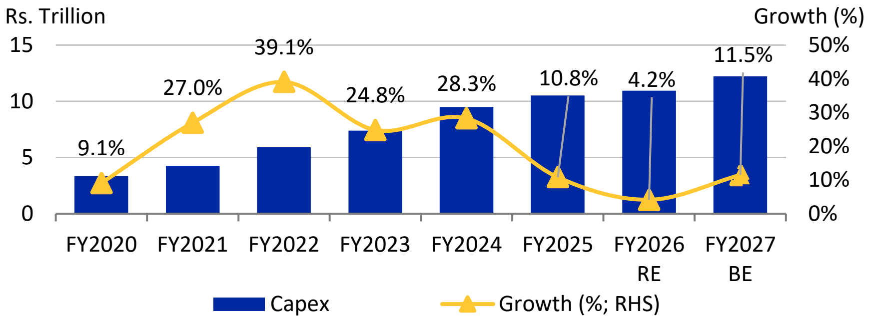
Exhibit 36: Trends in Schemes Showing Major Outlay under Revenue Head

Expenditure Items (Rs. Trillion)	FY2026 RE (1)	FY2027 BE (2)	Variation (2-1)	Growth (2/1)
Balance revex^	**13.7**	**14.8**	**1.2**	**8.6%**
VB-G RAM G + MGNREGA	0.88	1.26	0.4	42.8%
Jal Jeevan Mission	0.17	0.68	0.5	298.1%
PMAY (rural+ urban + urban 2.0 +Grameen)	0.40	0.77	0.4	89.9%
GECL	0.00	0.09	0.1	--
PMGSY	0.11	0.19	0.1	72.7%
Samagra Shiksha	0.38	0.42	0.0	10.8%
National Health Mission	0.37	0.39	0.0	6.2%
Saksham Anganwadi and POSHAN 2.0	0.21	0.23	0.0	10.3%
Income support scheme	0.64	0.64	0.0	0.0%
Crop Insurance scheme	0.12	0.12	0.0	-0.5%
Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY)	2.28	2.27	0.0	-0.1%
PLI	0.14	0.13	0.0	-4.8%
Finance Commission Grants	1.53	1.29	-0.2	-15.4%

^Excluding outgo towards major subsidies, interest payments, and salaries and pensions; GECL: Guaranteed Emergency Credit Line; PMGSY: Pradhan Mantri Gram Sadak Yojna; PLI: Productivity Linked Incentive, ~Viksit Bharat Guarantee for Rozgar and Ajeevika Mission; *Source: GoI Budget Documents, ICRA Research*

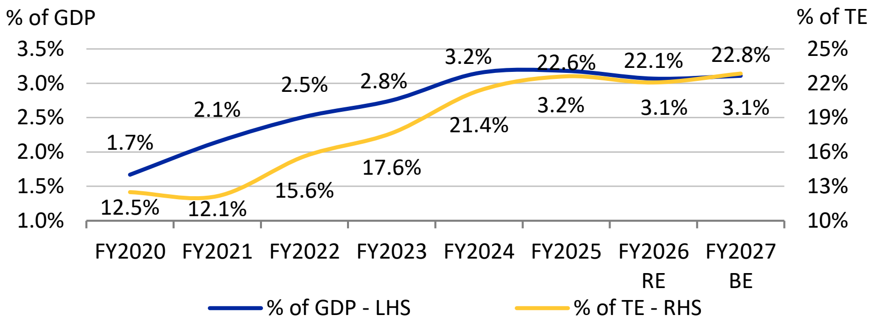
GoI's continued capex thrust with ~12% growth to Rs. 12.2 trillion in FY2027

Exhibit 37: Trends in GoI's Gross Capital Expenditure



Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

Exhibit 38: Capital Expenditure as % of GDP and % Total Expenditure



Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

- The GoI has pegged the gross capital expenditure at Rs. 12.2 trillion in FY2027 BE (ICRA's exp.: Rs. 13.1 trillion), a healthy 11.5% higher than Rs. 11.0 trillion in FY2026 RE. Notably, this translates to 3.1% of GDP in FY2027 BE, in line with the FY2026 RE, while trailing the 3.2% of GDP seen in FY2025 Actuals. The double-digit hike in capex for FY2027 is welcome, given that the implementation of the 8th Central Pay Commission (along with arears) would constrain fiscal space in FY2028.
- Owing to the sharper growth in capex vis-à-vis revex, the quality of spending is budgeted to improve further, with a rise in the share of capital expenditure in total expenditure to 22.8% in FY2027 BE from 22.1% in the FY2026 RE.
- Interestingly, the allocation for the GoI's Grants in Aid for creation of Capital Assets has been hiked by a sharp ~60% to Rs. 4.9 trillion in FY2027, albeit on a downward revised print for FY2026 (Rs. 3.1 trillion in RE vs. Rs. 4.3 trillion in BE). This takes the GoI's effective capital expenditure to Rs. 17.1 trillion (4.4% of GDP), a sharp 22.1% higher than the FY2026 RE of Rs. 14.0 trillion (3.9% of GDP). **This material expansion in public capex would play an important role in supporting GDP growth in FY2027, particularly when private capex activity is expected to remain uneven.**

YoY rise in capex in FY2027 BE largely led by increased allocation for interest-free capex loans to states

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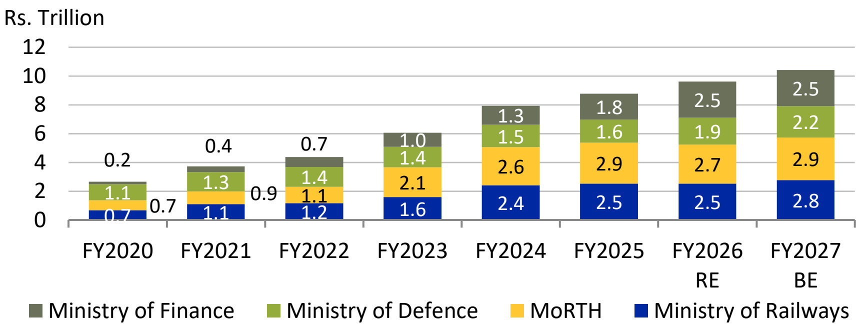
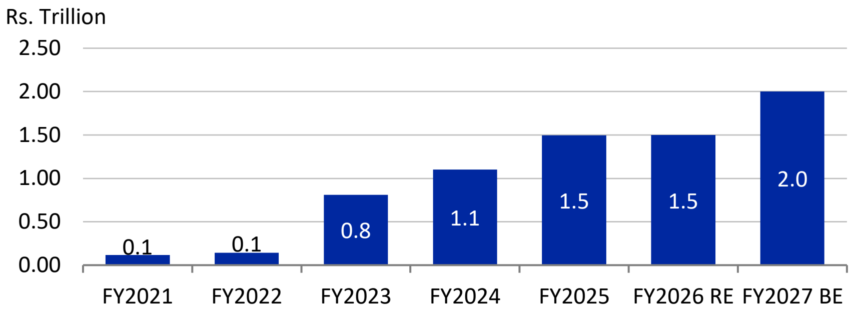
Exhibit 39: Trends in Capex Allocation towards Major Ministries/Sectors



Source: Union Budget, GoI, ICRA Research

Exhibit 40: Trends in 50-Year Interest Free Capex Loan to State Governments

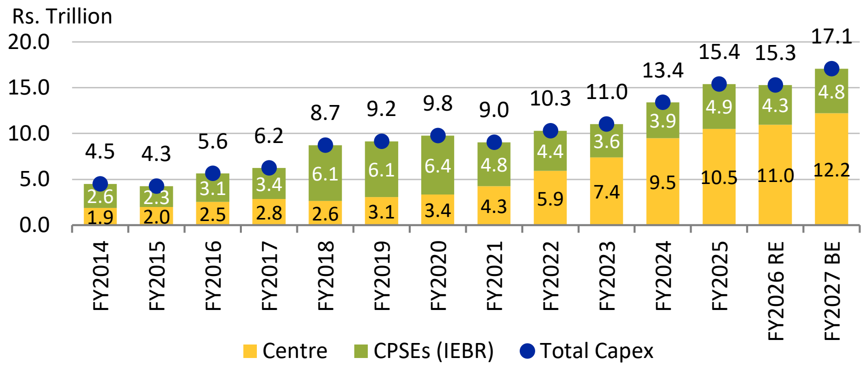


Source: Union Budget, GoI, ICRA Research

- The expansion of Rs. 1.3 trillion in the capex target for FY2027 BE over FY2026 RE has largely been driven by higher allocation towards the "special assistance as loan to states for capital expenditure" (to Rs. 2.0 trillion in FY2027 BE from Rs. 1.5 trillion in FY2026 RE), which accounts for ~40% of the total increase in capex between these years. This seems fitting, given the wider scope of expenditure under this scheme as against the GoI's on-budget capex that is largely focused on roads, highways, railways, and defence.
- Furthermore, the capital outlay for Defence services (+Rs. 0.3 trillion), and capex towards the MoRTH (+Rs. 0.2 trillion), and MoR (+Rs. 0.3 trillion) have also been raised in FY2027 BE, compared to the FY2026 RE. In addition, the capital support to PSUs (within the Department of Telecommunications) has also been raised to Rs. 285.1 billion in FY2027 BE from Rs. 69.5 billion in FY2026 RE.
- **With the sharp expansion in Grants in Aid for creation of Capital Assets and the capex loan scheme, the onus on the states to execute capex has clearly been stepped up.**

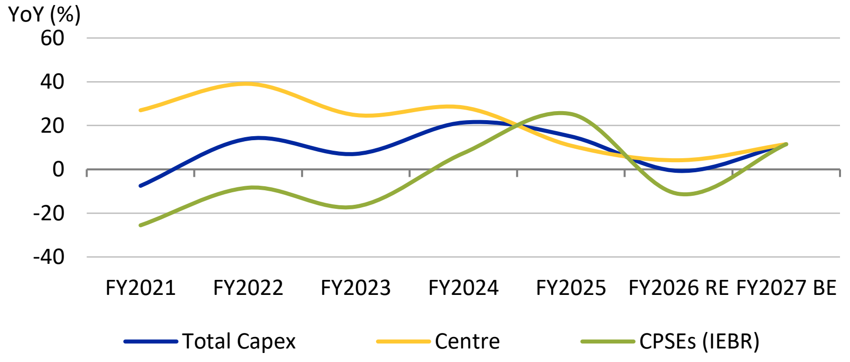
IEBR of CPSEs to expand by 11.5% YoY in FY2027 BE; combined capex by Centre and CPSEs projected at Rs. 17.1 trillion

Exhibit 41: Capex by Centre and CPSEs (IEBR)



Source: Union Budget, GoI, ICRA Research

Exhibit 42: Annual growth trends in Capex by Centre and CPSEs (IEBR)

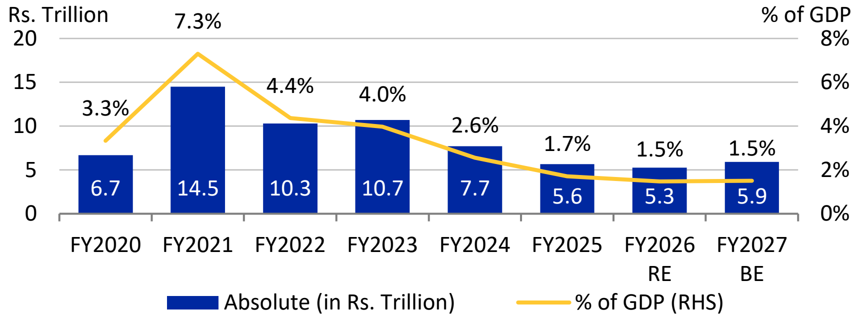


Source: Union Budget, GoI, ICRA Research

- In addition to the increase in the budgeted capex (+11.5% in FY2027 BE), the Internal and Extra Budgetary Resources (IEBRs) portion of the capital outlay by CPSEs has been indicated to witness a similar growth of 11.5% to Rs. 4.84 trillion in FY2027 BE from Rs. 4.34 trillion in FY2026 RE. Notably, the growth in the latter comes on the back of 11.2% dip in FY2026 RE vs. FY2025 Actuals.
- Consequently, the combined capital expenditure (budgetary capex + IEBR) is projected at Rs. 17.1 trillion in FY2027 BE, ~12% higher than the Rs. 15.3 trillion in FY2026 RE. As a proportion of GDP, this is expected to remain steady at 4.3% of GDP in FY2027 BE vis-à-vis FY2026 RE.
- Notably, the sum of the GoI's effective capex (including GoI's capex and grants in aid for creation of capital assets) and the IEBR of CPSE's amounts to a sizeable Rs. 22.0 trillion in FY2027 BE, 19.6% higher than the Rs. 18.4 trillion in the FY2026 RE. This amounts to 5.6% of GDP, as against 5.1% of GDP in FY2026 RE.

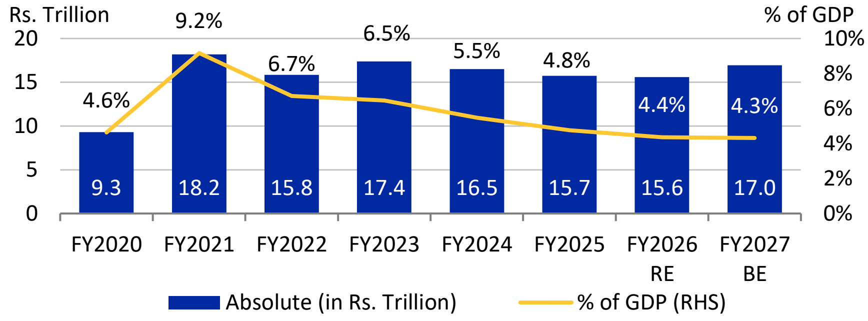
GoI's fiscal deficit target pegged at 4.3% of GDP in FY2027, in line with ICRA's projection

Exhibit 43: GoI's Revenue Deficit (Absolute and % of GDP)



Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

Exhibit 44: GoI's Fiscal Deficit (Absolute and % of GDP)



Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

- With revenue spending (+6.6%; amid a +10.2% rise in interest payments) estimated to grow at a relatively quicker pace than revenue receipts (+5.7%) in FY2027 BE over FY2026 RE, the GoI has estimated its revenue deficit to widen to Rs. 5.9 trillion (1.5% of GDP) in FY2027 BE from Rs. 5.3 trillion (1.5% of GDP) in FY2026 RE.
- While interest payments (Rs. 14.0 trillion) continue to exceed capital expenditure (Rs. 12.2 trillion), an important feature is the sharp ~60% expansion in grants in aid for creation of capital assets. Notably, expenditure is booked as capex only in the books of that tier of government that owns the assets. This is an important point to note, that the GoI provides substantial grants to the states for undertaking capex, which are classified under the head grants in aid for creation of capital assets. As a result, while the GoI's revenue deficit is stable at 1.5% of GDP, the effective revenue deficit is halving to 0.3% of GDP in the FY2027 BE from 0.6% of GDP in FY2026 RE, which is a positive step in terms of the quality of expenditure and the fiscal deficit.
- The GoI has targeted the fiscal deficit at Rs. 17.0 trillion in FY2027 BE, higher than Rs. 15.6 trillion in FY2026 RE. However, as a percentage of GDP, the fiscal deficit is estimated to be curtailed to 4.3% from 4.4% estimated in FY2026 RE. Notably, the ratio of effective capex to fiscal deficit is estimated at 101.1% in FY2027 BE compared to 90.1% FY2026 RE, indicating that borrowings are entirely funding capex.

Surge in redemptions pushing up GoI's gross market borrowings to Rs. 17.2 trillion in FY2027 BE

Exhibit 45: GoI's Long-Term Market Borrowings

Rs. Trillion	FY2026 BE (A)	FY2026 RE (B)	FY2027 BE (C)	Growth (C/B)
Gross Market Borrowing	14.82	14.61	17.20	17.7%
Redemptions	3.28	3.28	5.47	66.6%
Net Market Borrowings	**11.54**	**11.33**	**11.73**	**3.6%**
Net Market Borrowings adjusted for buybacks and switching	**11.54**	**10.40^**	**11.73**	**12.2%**

^Net of buybacks of Rs. 868 billion and switches of Rs. 56 billion; Source: Budget Documents, Ministry of Finance, GoI, ICRA Research

- The gross and net market borrowings of the GoI in FY2026 RE have been pared to Rs. 14.6 trillion and Rs. 11.3 trillion, respectively, from the budgeted levels of Rs. 14.8 trillion and Rs. 11.5 trillion, respectively, amid the cancellations of G-secs worth Rs. 160 billion in FY2026 so far (till February 1, 2026) as well as lower-than-budgeted market borrowings for H2 FY2026 (planned: Rs. 6.77 trillion vs. BE: Rs. 6.87 trillion).
- Subsequently, the GoI's net market borrowing is estimated at Rs. 11.7 trillion in FY2027 BE, only 3.6% higher on a YoY basis However, redemptions are budgeted to surge to Rs. 5.5 trillion in FY2027 BE, ~67% higher than Rs. 3.3 trillion included in FY2026 RE. **This is pushing the gross market borrowings sharply by 17.7% to Rs. 17.2 trillion in FY2027 BE relative to the FY2026 RE, materially higher than market expectations. This is likely to exert some upward pressure on G-sec yields. We had expected the GoI to pare the redemption number via buybacks, switches/conversions and/or a larger drawdown of cash balances, to limit the gross issuances to ~Rs. 16 trillion, to assuage G-sec yields, which have been rising since November 2025.**

Net market borrowings and NSSF continue to be major sources of financing the fiscal deficit in FY2027

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Exhibit 46: Sources for Financing Fiscal Deficit

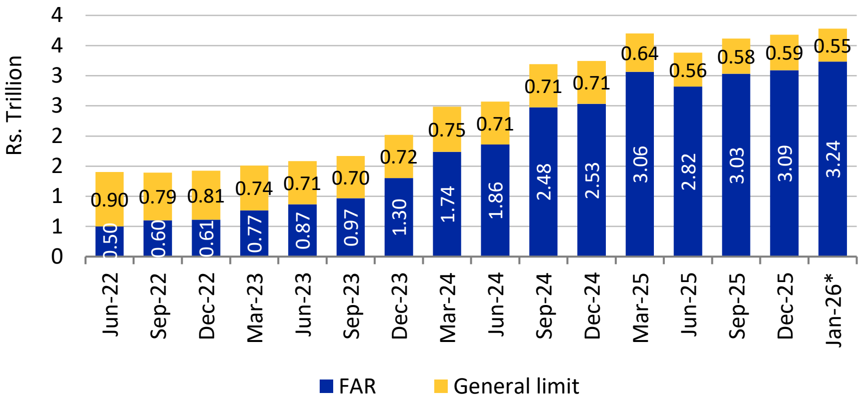
Rs. Trillion	FY2026 BE	FY2026 RE	FY2027 BE
(A) Borrowings	**11.54**	**10.40**	**13.03**
Dated Net Market Borrowings (i)	11.54	11.33	11.73
Treasury-Bills (ii)	0.00	0.00	1.30
Net Switching of Securities (iii)	0.00	-0.06	0.00
Net Buyback (iv)	0.00	-0.87	0.00
Net Post Office Life Insurance Fund (v)	0.0	0.00	0.00
(B) Net Securities against Small Savings	3.43	3.72	3.87
(C) Net State Provident Funds	0.05	0.04	0.04
(D) Other Receipts	0.41	0.76	-0.46
(E) Net External Debt	0.23	0.20	0.15
(F) Net drawdown of Cash Balances	0.02	0.46	0.33
Sources of Funding the Fiscal Deficit (sum of A to F)	**15.69**	**15.58**	**16.96**

Source: GoI Budget Documents, ICRA Research

- In FY2026 RE, the net Treasury Bills have been kept at nil, in line with the BE. However, with net switches and buybacks worth Rs. 0.9 trillion (vs. nil in FY2026 BE), the GoI's total market borrowings have been pegged at a lower Rs. 10.4 trillion in FY2026 RE vis-à-vis the budgeted amount of Rs. 11.5 trillion. Thereafter, in FY2027 BE, the increase in net dated market borrowings (at Rs. 11.7 trillion) as well as Treasury Bills (Rs. 1.3 trillion) is leading to the sharp rise in GoI's total borrowings to Rs. 13.0 trillion vis-à-vis FY2026 RE.
- The net amount raised from small savings is pencilled in at Rs. 3.7 trillion in FY2026 RE, modestly higher than Rs. 3.4 trillion in the BE. For FY2027 BE, the GoI has indicated that it would borrow a net amount of Rs. 3.9 trillion via this route, 3.9% higher than the year ago level. We expect an overshooting in collections via small savings relative to the FY2026 RE; this may lead to a carry forward of cash balances to FY2027, aiding in buybacks or a larger rundown of cash to limit GMBs in the fiscal.
- The share of market borrowings and NSSF in financing the fiscal deficit is pegged at 77% and 23%, respectively, in FY2027 BE (67% and 24%, respectively, in FY2026 RE).

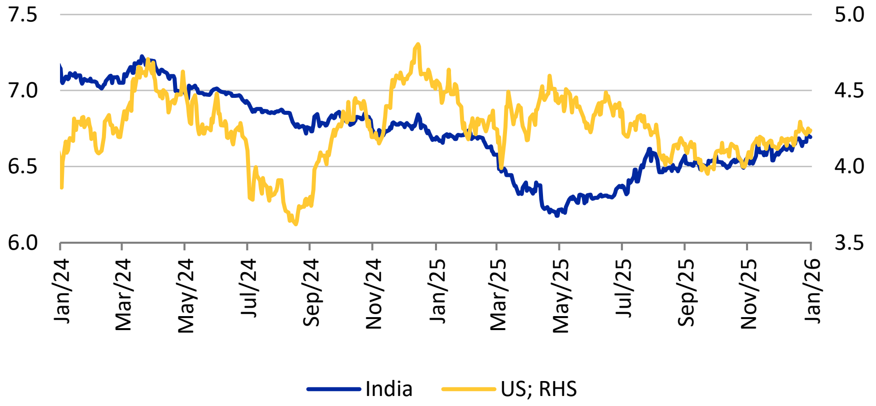
India's 10Y G-Sec yield to remain elevated

Exhibit 47: Central Government Securities held by FPIs under Fully Accessible Route (FAR) and General Investment Route (GIR)



*till January 31, 2026; Source: NSDL; ICRA Research

Exhibit 48: Trends in India and US 10-year G-sec/Treasury Yield



Source: Refinitiv; ICRA Research

- The FPI holdings in G-Secs through fully accessible route (FAR) increased to Rs. 3.09 trillion at end-December 2025 from Rs. 3.03 trillion at end-September 2025, supported by the widening in the 10Y UST-India spreads. Subsequently, such holdings rose further to Rs. 3.24 trillion as on January 31, 2026.
- Despite the policy rate cuts and active liquidity infusion by the RBI, India's 10-year benchmark G-sec yield has remained elevated, averaging at 6.65% during January 2026 vs. 6.58% during December 2025. Moreover, it had closed around the 6.70%-mark during January 27-30, 2026, ahead of the budget presentation.
- **Given the higher-than-expected increase in the gross borrowing number for FY2027, ICRA expects the 10-year yield to trade with an upward bias.**

ICRA

Sector Impact

#Budget26WithICRA

DASHBOARD

↑	Positive	↔	Neutral	↓	Negative

Sector	Impact	Sector	Impact
AGRICULTURE	↔	INFRASTRUCTURE/CONSTRUCTION	↑
AUTOMOTIVE – 2W/PV/CV	↔	METALS & MINING	↑
AVIATION	↑	OIL AND GAS	↔
BFSI - BANKS/NBFCs/INSURANCE	↑	PHARMACEUTICAL AND HEALTHCARE	↑
BFSI – CAPITAL MARKETS	↓	PORTS, PORT LOGISTICS AND SHIPPING	↔
CAPITAL GOODS	↑	POWER & RENEWABLES	↑
CEMENT	↑	RAILWAYS	↑
DEFENCE	↑	REAL ESTATE	↔
ELECTRONICS AND CONSUMER DURABLES	↑	ROADS	↔
FERTILISERS	↔	TEXTILES	↑
HOSPITALITY	↑		

AGRICULTURE

PROPOSALS

- An allocation of Rs. 1.62 trillion has been included for agriculture and allied activities for FY2027 BE.
- Bharat Vistar, an AI portal tool, has been launched to provide customised advisory support.
- The Budget has extended support to the animal husbandry sector (which contributes 16% to farm income) through a credit-linked subsidy programme and other initiatives.
- The budgetary allocation for the Crop Insurance Scheme has been reduced marginally to Rs. 122 billion for FY2027 BE from Rs. 123 billion for FY2026 RE.
- The allocation towards the Modified Interest Subvention Scheme has been kept stable at Rs. 226 billion for FY2027 BE, same as FY2026 RE.
- The allocation for the Rashtriya Krishi Vikas Yojna has been increased to Rs. 85.5 billion for FY2027 BE from Rs. 70 billion for FY2026 RE.
- An allocation of Rs. 635 billion has been made for FY2027 BE towards PM-Kisan, which stood at similar levels for FY2026 RE.

VIEW

- The initiatives to improve agricultural productivity such as the introduction of AI tools like Bharat Vistar, focus on enhancing the production of high-value crops and the support for animal husbandry to supplement farm income bode well for the agri-economy.
- The allocation towards the Crop Insurance Scheme provides financial support to farmers by covering crop losses suffered due to natural calamities.
- The allocation towards the Modified Interest Subvention Scheme remains high and would promotes access to farm credit at relatively low interest rates.
- The continued healthy allocation towards the Rashtriya Krishi Vikas Yojana aims to focus on enhancing agricultural productivity.
- The continued allocation towards PM-Kisan would support farmers' income.

AUTOMOTIVE – 2W/PV/CV

PROPOSALS

- An outlay of Rs. 1.62 trillion has been announced for agriculture and allied activities for FY2027 BE.
- The capital outlay on infrastructure development has been increased by 11.4% YoY to Rs. 12.2 trillion for FY2027 BE.
- PLI scheme allocation for automobiles and auto components has been increased to Rs. 59.39 billion for FY2027 BE from Rs. 20.91 billion for FY2026 RE.
- The Union Budget has allocated Rs. 15 billion for FY2027 BE (over Rs. 13 billion for FY2026 RE) under the PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM-Edrive) Scheme.
- The allocation for procuring e-buses under the PM e-Bus Sewa Scheme has been increased to Rs. 5.0 billion for FY2027 BE from Rs. 3.0 billion for FY2026 RE.
- The Union Budget has announced the creation of rare earth corridors to promote mining, processing, research and manufacturing of rare earth permanent magnets.
- A credit guarantee support mechanism has been announced for invoice discounting on the TReDS platform.
- India Semiconductor Mission (ISM) 2.0 has been launched to help expand India's semiconductor capabilities, with an allocation of Rs. 10 billion for FY2027 BE.
- High value crop production in coastal areas is to be supported to diversify farm output/enhance farmer income.
- An enhanced outlay has been announced for the Electronics Components Manufacturing Scheme.

VIEW

- The Union Budget reflects the GoI's continued focus on supporting agricultural cash flows through rural infrastructure development and healthy allocation for farmer welfare schemes. The outlay for agriculture and allied activities is likely to support rural demand, a critical driver for the auto sector.
- The GoI's persistent thrust on investments in infrastructure development augurs well for CV demand, especially multi-axle trucks and tippers.
- The disbursement of funds under PLI schemes would support manufacturing competitiveness of automotive OEMs and ancillaries; allocation under the PM-Edrive scheme will continue to reduce upfront costs and encourage adoption.
- The GoI continues to support the Green Growth initiative by increasing the outlay towards the procurement of e-buses for public transportation (including 4,000 e-buses for creating five tourism destinations in five Purvodaya states). This will support growth of e-bus OEMs and operators.
- The creation of rare earth corridors is expected to help secure India's supply of critical materials, reduce import dependence, and strengthen domestic manufacturing.
- Support for MSMEs in the form of a dedicated equity fund and liquidity aid (through TReDS) will help the auto component sector at large.
- Incentivisation of electronics manufacturing has the potential to increase local content availability for auto OEMs.

AVIATION

PROPOSALS

- A scheme will be launched to support states in establishing five regional medical hubs in partnership with the private sector.
- Focus will remain on developing infrastructure in cities (Tier-II and III) with population of over 5 lakh.
- Several measures have been proposed to promote tourism, including the development of trekking and hiking trails as well as transformation of 15 archaeological sites into cultural destinations.
- The Budget has proposed an exemption on BCD for components and parts used in manufacturing civilian, training and other aircraft.

VIEW

- Domestic air passenger traffic rose at a CAGR of 9% between FY2015 and FY2025. These measures will provide a further boost to the same.
- The establishment of five regional medical hubs will help boost medical tourism volumes, supporting international tourism in India.
- Other measures, including the development of tourist destinations as well as trekking, hiking trails and archaeological sites, are expected to support the tourism sector and thus benefit the aviation industry.
- The removal of BCD on aircraft components and parts will help lower the cost of aircraft assembly/manufacturing in India while also reducing working capital requirements.

BFSI – BANKS/NBFCs/INSURANCE

PROPOSALS

- Measures have been proposed for MSMEs, whereby a Rs. 100-billion SME Growth Fund will be set up, TReDS will act as a settlement platform for purchases from MSMEs by Central Government enterprises, a Credit Guarantee Fund through CGTSME will be used for invoice discounting via the TReDS platform, and TReDS receivables will be eligible as asset-backed securities under securitisation.
- An Infrastructure Risk Guarantee Fund will be established to provide partial credit guarantees (PCGs) to lenders for infrastructure projects undertaken by private developers.
- The banking sector will be reviewed comprehensively for Viksit Bharat to align with India's next phase of growth. A proposal has been made to set up a high-level committee to review the sector. The committee will review the sector's structure, governance, future readiness, stability, consumer protection, and inclusion.

VIEW

- The continued emphasis on MSMEs includes extending the guarantee scheme introduced in the previous Budget and establishing a growth fund to provide equity support to this segment. This will be also be a positive for the asset quality of lenders. Additionally, the proposal to broaden the mandate of the TReDS platform for specific settlements and to make TReDS receivables tradable securities is expected to enhance liquidity in the sector.
- Private sector participation in the infrastructure sector has been muted due to the asset quality issues faced by lenders. PCGs for such projects will improve private sector participation and support the asset quality of lenders.
- The banking sector has undergone significant consolidation since the merger among public sector banks in 2020 while bank privatisation has not seen material progress. ICRA expects the committee to address some matters such as ownership structure and voting rights of promoters as these continue to dampen private sector and foreign investor participation.

BFSI – BANKS/NBFCs/INSURANCE

PROPOSALS

- A proposal has been made to achieve scale and improve efficiency in public sector NBFCs. As a first step, Power Finance Corporation Limited (PFC) and REC Limited (REC) will be restructured.
- The Budget has proposed the introduction of a market making framework for corporate bonds and derivatives on corporate bond indices with total return swaps on corporate bonds.
- An incentive of Rs. 1 billion has been proposed for municipal bonds for a single bond issuance of more than Rs. 10 billion.
- Interest awarded for motor claims to a natural person will be exempt from income tax and TDS.

VIEW

- Government-owned NBFCs are essential in supporting credit flow to the infrastructure sector. However, there has been a growing overlap in their operations recently, resulting in competition for financing the same projects. The proposed restructuring of PFC and REC seems like an attempt to clearly define target segments, enhance segment diversity (Green financing, etc) and consequently strengthen credit flow to the infrastructure sector.
- The corporate bond market continues to be impacted by the lack of active secondary markets, thereby raising illiquidity premium and the cost of borrowings. Additionally, more than 90% of bonds issued in value terms are fixed rate, impacting the funding cost in a declining rate scenario. Accordingly, the proposal may address both these challenges and support the growth of corporate bond markets.
- The participation of municipalities in corporate bond issuances remains miniscule at less than 1% of total issuances in value terms because of higher funding cost compared to borrowings from government-owned NBFCs or state government bonds. The proposed incentive can reduce the funding cost for municipalities by up to 100 bps for a 10-year tenure bond.
- Given the delays in motor claims payouts by the Tribunal, the tax-free interest on such delayed payouts is positive for beneficiaries.

BFSI – CAPITAL MARKETS

PROPOSALS

- STT has been proposed to be raised to 0.05% from 0.02% for futures and to 0.15% from 0.1%/0.125% on options premium/exercise.

VIEW

- The proposed increase in STT on F&O trades, following the earlier hike implemented in October 2024, reflects the continued policy intent to temper excessive speculative activity. Prior to this proposed change, robust growth in derivatives market participation and the 60% STT hike in H2 FY2025 had led to expectations that STT collections would rise to Rs. 780 billion in FY2026 from Rs. 522 billion in FY2025. However, measures aimed at curbing hyperactive trading dampened market volumes, resulting in an 18% downward revision in FY2026 STT collections from the budgeted estimate of Rs. 780 billion.
- With another steep increase being announced, STT collections for FY2027 are projected to be 16% above the revised FY2026 estimate. In ICRA's view, these budgeted numbers assume that trading volumes will hold steady despite the higher transaction costs. Nonetheless, some moderation in derivatives activity remains a risk, which could translate into lower trading turnover and consequently softer brokerage volumes and revenues from the derivatives segment for the securities broking industry.

CAPITAL GOODS

PROPOSALS

- Public capex has been increased to Rs. 12.2 trillion from Rs. 11.2 trillion in FY2027 BE.
- Foreign companies providing cloud services using domestic data centres will get a tax holiday till 2047.
- The Budget has extended BCD exemption on capital goods used for manufacturing lithium-ion cells for batteries and for BESS.
- The allocation has been increased for solar rooftop, transmission and distribution capex schemes in the power & renewables sector.

VIEW

- The increase in total public capex spending will provide much-needed momentum for infrastructure-led growth with focus on Tier-II and Tier-III cities. It should help garner higher private investments.
- The higher allocation towards various capex-focused schemes in the power & renewables sector is expected to benefit the order book position of capital goods players.
- The tax holiday to foreign companies is a big step forward to encourage investment in the AI space and digital infrastructure. As the exemption will only be available to entities, which provide cloud services through Indian reseller entities, it will ensure higher domestic participation.
- The demand for data centres in India is grossly underserved at present and tax exemption till 2047 provides visibility to India as a potential hub for data centres. The extension of BCD on capital goods and machinery used for producing lithium-iron cells will allow cost rationalisation, thereby enhancing the cost competitiveness of domestic producers.

CEMENT

PROPOSALS

- Capital spending stands at Rs. 12.2 trillion in FY2027 BE, marking a rise of 11.5% over FY2026 RE. Apart from capex, the allocation for the GoI's grants-in-aid for the creation of capital assets has been hiked by 60% to Rs. 4.9 trillion in FY2027 BE, though on a downward revised print for FY2026 RE. This takes the effective capex to Rs. 17.2 trillion, which is 22.1% higher than FY2026 RE.
- The budgetary allocation towards the agriculture sector and rural development has been raised by 4.8% to Rs. 3.4 trillion for FY2027 BE from Rs. 3.2 trillion for FY2026 RE.
- The allocation towards the PMAY-Gramin programme stands higher by 69% to Rs. 549.2 billion in FY2027 BE compared to Rs. 325.0 billion in FY2026 RE. However, the outlay remains largely similar at Rs. 548.3 billion for FY2026 BE.
- An outlay of Rs. 200 billion is proposed over the next five years towards CCUS technologies across five industrial sectors, including cement.

VIEW

- The infrastructure sector accounts for 23-24% of the total cement demand. The substantial budgetary allocation underscores the Government's focus on the infrastructure sector, translating into a positive impact on the cement sector.
- The Government's focus on agri-economy and rural development is expected to support income for farm households, thereby aiding demand for rural housing, which is a significant contributor (35-36%) to the overall cement demand.
- The continued focus on PMAY-Gramin is likely to aid rural housing construction activity and boost cement demand.
- The Budget's CCUS outlay will accelerate decarbonization, enabling the sector's path towards the net-zero carbon goal.

DEFENCE

PROPOSALS

- The capital outlay for the FY2027 BE stands at Rs. 2.3 trillion, which is 17% higher than the FY2026 RE.
- BCD exemption has been extended to raw materials imported for the manufacture of aircraft parts used for maintenance, repair or overhaul activities by units in the Defence sector.

VIEW

- Higher capex and policy incentives support the Defence manufacturing ecosystem's expansion.
- The increased allocation towards equipment (+61%), naval fleet (+19%) and R&D (+15%) and sustained healthy outlay towards aircraft and aero engines (~Rs. 637 billion) reflect continued focus on military readiness and modernisation.
- The BCD exemption is expected to lower costs for Defence aviation maintenance and support India's push towards greater self-reliance in military aerospace capabilities.

ELECTRONICS & CONSUMER DURABLES

PROPOSALS

- The outlay on the Electronics Components Manufacturing Scheme has been increased to Rs. 400 billion from Rs. 229 billion.
- Proposed launch of India Semiconductor Mission 2.0 has been made.
- The exemption of BCD on specified parts used in the manufacturing of microwave ovens has been announced.

VIEW

- The increase in outlay for the Electronics Components Manufacturing Scheme to Rs. 400 billion from Rs. 229 billion will spur indigenous manufacturing of electronics and increase value addition.
- The launch of India Semiconductor Mission 2.0 will expand the country's semiconductor sector capabilities in producing equipment and materials, designing full-stack Indian IP, and fortifying supply chains. This will strengthen the domestic semiconductor manufacturing ecosystem.
- The proposed exemption of BCD on specified parts used in the manufacturing of microwave ovens aligns with the Budget's stated objective of using customs reforms to boost domestic manufacturing by lowering tariffs on inputs needed for industrial production.

FERTILISERS

ICRA

PROPOSALS

- The Union Budget has allocated Rs. 1.71 trillion towards fertiliser subsidy, including Rs. 1.16 trillion towards urea and Rs. 54 billion towards NBS for FY2027 BE. The subsidy allocation is lower than FY2026 RE.
- The fertiliser subsidy allocation under the NBS regime for FY2026 RE is Rs. 600 billion while it is Rs. 1.26 trillion for urea.

VIEW

- The Rs. 1.71-trillion budgetary allocation towards fertiliser subsidy for FY2027 is slightly lower than FY2026 RE. While the budgetary allocation for FY2027 indicates a shortfall against the subsidy requirements as per ICRA's expectations, the GoI is expected to calibrate the subsidy budget through FY2027, depending on the requirement of the sector, as has been the trend in the last few years.
- The subsidy allocation for the NBS regime under FY2026 RE is lower than ICRA's estimates. Thus, ICRA expects some elongation in the working capital cycle of non-urea fertiliser companies. The FY2026 RE subsidy allocation for urea players is in line with expectations.

HOSPITALITY

PROPOSALS

- The Budget proposes to develop 15 archaeological sites into experiential cultural destinations. Excavated landscapes will be opened to the public through curated walkways. Initiatives for ecologically sustainable trekking and hiking have been announced, including mountain trails in the Himalayas, Eastern Ghats and Western Ghats. Turtle trails are to be set up in the nesting sites of the coastal areas of Odisha, Kerala, and Karnataka and birdwatching trails will be created along Pulicat Lake in Andhra Pradesh and Tamil Nadu. A pilot scheme will be launched to upskill 10,000 guides across 20 iconic tourist sites in collaboration with Indian Institute of Management.
- Seven high-speed rail corridors between cities will be developed. Incentives will be provided to indigenise seaplane manufacturing to promote tourism, along with the proposed introduction of a seaplane viability gap funding scheme to support operations. The first-ever Global Big Cat Summit will be hosted in India.
- The Government will support states in establishing five regional medical hubs to promote medical tourism.
- The National Destination Digital Knowledge Grid (NDDKG) will be established to digitally document culturally, spiritually and historically significant heritage sites.
- A National Institute of Hospitality will be established to upgrade the National Council for Hotel Management and Catering Technology (NCHMCT).
- The TCS rate on the sale of overseas tour packages has been reduced from 5% and 20% to 2%.

VIEW

- The proposal to develop archaeological sites, trekking and hiking trails, birdwatching routes and open excavated landscapes for public access is expected to create new travel destinations and stimulate demand for hotels in the respective regions. The newly announced scheme to upskill guides at iconic tourist sites will enhance visitor experiences and attract more travelers.
- Initiatives aimed at improving connectivity — including the development of new high-speed rail corridors and incentives to indigenise seaplane manufacturing — will improve mobility and access to remote destinations, thus aiding tourism. This apart, events like the Global Big Cat Summit will drive hospitality demand.
- The promotion of medical tourism is likely to boost demand for the hospitality sector, driven by increasing patient inflows and accompanying attendants.
- The establishment of NDDKG will improve information availability and awareness on travel destinations, supporting tourism and hospitality demand.
- The investments in upgrading NCHMCT will support the availability of skilled manpower for the hospitality sector.
- Reduction in TCS on international tour programmes makes international travel cheaper. However, this is unlikely to materially substitute domestic demand.

INFRASTRUCTURE/CONSTRUCTION

PROPOSALS

- The capital outlay for FY2027 BE at Rs. 12.2 trillion is 11% higher than the FY2026 RE. The allocation towards roads and railways has increased by 8-10% from the FY2026 RE level.
- Special assistance as long-term interest-free loans to states has been continued, with a 33% YoY increase to Rs. 2 trillion for FY2027 BE (including states and Union Territories).
- JJM, which was extended until 2028 last year, was given an outlay of ~Rs. 677 billion, comparable to the FY2026 BE (albeit three times higher than FY2026 RE).
- An allocation of Rs. 50 billion per city economic region (CER) has been proposed over five years to develop infrastructure in Tier-II and Tier-III cities.
- A provision of tax holidays until 2047 has been granted to foreign companies providing cloud services to global customers through India-based data centre services.
- Several initiatives were announced to enhance project viability and broaden infrastructure funding sources, including the setting up of an Infrastructure Risk Guarantee Fund, dedicated CPSE REITs and higher incentives for municipal bond issuances (Rs. 1 billion for issuance of Rs. 10-billion bond).

VIEW

- The healthy and sustained rise in capital allocations continues to bode well for the infrastructure and construction sectors. In line with historical trends, the Road and Railways Ministries continue to account for the bulk (~47%) of the proposed capital outlay in FY2027 BE, which saw healthy growth over FY2026 RE.
- The sustained allocation towards major schemes like JJM, PMGSY, PMAY, and metro projects is a positive. However, contractors focused on JJM projects witnessed a build-up in receivables, which is reflected in lower spending in FY2026 as per revised estimates; its ramp-up remains to be seen in FY2027.
- The continuation, along with the sharp increase, in the Central Government's interest-free loans to state governments for capex will support state-sponsored infrastructure projects.
- Tax incentives for the cloud/data-centre sector aim to strengthen India's data infrastructure, boost its growing role in cloud computing and AI and reinforce India's position as a hub for these services. The proposed initiatives will enhance financial viability and improve the attractiveness of data centre investments in India.
- New financing mechanisms and the proposed incentives should improve project bankability and crowd-in private capital, supporting a more sustainable capex cycle.

METALS & MINING

PROPOSALS

- Capex is targeted to grow by 11.5% in FY2027 BE compared to FY2026 RE.
- The allocation for railways is set to rise by 10.3%, while that for road transport and highways will increase by 8.1% in FY2027 BE over FY2026 RE.
- There is renewed focus on the PMAY Scheme, with a ~90% increase in allocation in FY2027 BE compared to FY2026 RE. The allocation for JJM has also been raised by 298% in FY2027 BE, following its underperformance in FY2026.
- The Government will extend a Rs. 2.0 trillion interest-free loan to states to support their capex projects.
- A sum of Rs. 200 billion has been allocated for carbon capture, utilisation, and storage (CCUS) facilities across sectors such as power generation, steel, cement, oil refining and chemicals.
- The Budget proposes to set up dedicated 'Rare Earth Corridors' in mineral-rich states across India.
- Customs duty will be exempted on the import of capital goods required for processing critical minerals in India.

VIEW

- The Union Budget's sustained emphasis on infrastructure-led growth, marked by increased capital spending on infrastructure projects and interest-free capex loans to states, continues to positively impact steel demand.
- Key steel end users, such as railways and roads, which account for 50-55% of the Centre's capex budget, witnessed 8-10% growth in capex allocations. In addition, the focus on the PMAY and JJM schemes remains, following their underperformance in FY2026, which is expected to support the demand for long steel and pipe manufacturers. Moreover, the continuation of Central Government support to states for funding capex programmes remains positive for steel.
- The Budget has a sharper focus on significant funding to make CCUS projects feasible at scale, support R&D and pilot plants, and eventually integrate CCUS into regular operations of power plants, steel mills, cement factories, etc., over the coming five years.
- The establishment of the dedicated 'Rare Earth Corridors' will create zones with the necessary infrastructure and incentives for companies to extract rare earth minerals and reduce import dependence on critical rare earth materials. Also, the BCD exemption on capital goods required for critical minerals would encourage investment in the downstream processing of critical minerals.

OIL AND GAS

PROPOSALS

- The Budget has allocated Rs. 15 billion towards direct benefit transfer (DBT) on domestic LPG sales.
- Public sector oil manufacturing companies have been given a one-time grant of Rs. 175 billion in FY2027 BE for under-recoveries in domestic LPG.
- An amount of Rs. 92.0 billion has been allocated for LPG connection to poor households.
- The Budget proposes to exclude the entire value of biogas while calculating the central excise duty payable on biogas-blended CNG.
- An allocation of Rs. 7.0 billion has been made towards Indradhanush Gas Grid Limited (IGGL), a part of the North East natural gas pipeline grid.
- An allocation of Rs. 2.0 billion has been announced for Mission Anveshan.

VIEW

- The budgetary allocation for LPG under-recoveries remains inadequate even after adjusting for the one-time grant announced in August 2025, with the total under-recoveries estimated at Rs. 300 billion by the end of FY2025-2026.
- The budgetary allocation of Rs. 92.0 billion towards LPG connection for poor households is likely to fall short against the actual outflow, which is estimated at Rs. 145 billion.
- The exemption of excise duty levy on the entire value of compressed biogas (CBG), to be blended in city gas distribution, will reduce the procurement cost for CGD players.
- The allocation towards IGGL will improve the viability of this project to connect the Northeastern states to the national gas grid.
- The allocation towards Mission Anveshan to conduct seismic mapping of unexplored basins would support effective exploration & production activities.

PHARMACEUTICAL AND HEALTHCARE

PROPOSALS

- Budgetary allocation towards healthcare has been increased by 10% to Rs. 1.1 trillion for FY2027 BE.
- A capital outlay of Rs. 100 billion has been allocated for the Biopharma Shakti programme to add three new and upgrade seven existing National Institutes of Pharmaceutical Education and Research while creating a network of 1,000 clinical trial sites.
- The Union Budget for FY2027 has announced the launch of a scheme to support states in establishing five regional medical hubs in partnership with the private sector.
- The Union Budget for FY2027 has announced BCD exemption of 5-10% for 17 cancer drugs and import duty exemption on medicines for seven rare diseases.
- Addition and upgradation of institutions for AHPs have been announced in private and Government sectors for 1,00,000 new AHPs and 1,50,000 caregivers.

VIEW

- The Union Budget for FY2027 has delivered a comprehensive health push with a 10% increase in budgetary allocation towards healthcare for FY2027 BE, addressing India's rising non-communicable disease burden through stronger prevention, screening and diagnostics.
- The Biopharma Shakti programme will aid in the development of a domestic ecosystem for the development and manufacturing of biologics and biosimilars.
- The regional medical hubs will boost medical tourism volumes in India and generate job opportunities for healthcare professionals.
- The exemption of BCD on drugs for cancer and other rare diseases will lower treatment costs, thus improving patient access and footfalls for hospitals.
- The addition of AHPs and caregivers will help address the current shortage of healthcare professionals in the country across disciplines like optometry, radiology, anaesthesia, applied psychology and behavioural health, while increasing coverage for geriatric and allied care services.

PORTS, PORT LOGISTICS AND SHIPPING

PROPOSALS

- A budgetary allocation of Rs. 100 billion has been made over a five-year period towards container manufacturing.
- Over the next five years, 20 new National Waterways, beginning with National Waterway–5 in Odisha, will be operationalised.
- A budgetary allocation of Rs. 15 billion has been made towards Inland Waterways Authority of India (IWAI).
- A ship repair ecosystem catering to inland waterways will be set up and a Coastal Cargo Promotion Scheme (CCPS) will be introduced to incentivise a modal shift from rail and road.

VIEW

- A capital outlay of Rs. 100 billion has been earmarked for container manufacturing over the next five years, aimed at strengthening India's logistics ecosystem and enhancing the global competitiveness of domestic logistics players. This measure would shift the sourcing from China to India amid massive demand from Indian logistics companies.
- Inland waterways, complemented by the development of new dedicated freight corridors, are expected to enhance cargo movement via water and rail, thereby reducing overall logistics costs. However, the current budgetary allocation of Rs. 15 billion to IWAI might be inadequate.
- A ship repair ecosystem for inland waterways will aid and enhance the movement of cargo. Further, CCPS will support the shift in cargo and reduce the overall logistics costs.

POWER & RENEWABLES

PROPOSALS

- The Union Budget proposes to undertake reforms in the power sector with focus on nuclear energy and deeper integration of clean energy.
- The Budget proposes exemption of BCD on specified capital goods used in the manufacturing of lithium-ion cells for batteries and BESS. Additionally, the viability gap funding (VGF) for BESS in FY2027 BE has been increased to Rs. 10 billion from Rs. 1 billion in FY2026 RE.
- The BCD exemption applies to all nuclear power generation goods and to all goods required for setting up specified nuclear projects that are registered before September 30, 2035.
- An Infrastructure Risk Guarantee Fund (IRGF) has been announced to provide PCGs to lenders for infrastructure development on a prudent basis.
- The budgetary allocation for the PM Surya Ghar Muft Bijli Yojana (PMSGMBY) has been scaled up to Rs. 220 billion in FY2027 BE, increasing by ~29% over FY2026 RE. For FY2027 BE, Rs. 189.7 billion has been allocated for RDSS and strengthening of power systems, higher by ~12% over FY2026 RE.
- A tax holiday till 2047 has been announced for foreign companies providing cloud services globally using data centre services from India.

VIEW

- The policy focus remains on the clean energy sector, in line with the objective to reduce carbon footprint and achieve sustainable development.
- The BCD exemption is expected to support cost competitiveness of domestic manufacturing ecosystem for batteries used in BESS projects. The increased VGF allocation would improve the tariff competitiveness of BESS projects.
- The plan to expand nuclear capacity to 100 GW by 2047 will get a boost from the BCD exemption by lowering the project cost and improving the tariff competitiveness for nuclear power projects.
- IRGF is expected to enhance lender confidence, attract capital and reduce financing cost for power infrastructure projects.
- Higher allocation towards RDSS remains a positive for the power sector as this will help in reducing the aggregate technical and commercial losses as well as support the implementation of smart metering projects.
- The tax relief towards data centre investments is likely to aid investment in energy-intensive data centres, creating healthy demand for power, green energy procurement and energy storage systems.

RAILWAYS

PROPOSALS

- The gross budgetary support for the Ministry of Railways increased by 10% to Rs. 2.78 trillion in FY2027 BE from Rs. 2.52 trillion in FY2026 RE.
- The allocation to railways represents nearly 23% of the overall capex of Rs. 12.2 trillion and remains in line with FY2026 RE.
- Track infrastructure, rolling stock, signaling and electrification and customer amenities continue to dominate the allocations with a 64% share, remaining in line with the FY2026 trend.
- The Budget plans to develop seven high-speed rail corridors between cities as 'growth connectors', namely i) Mumbai-Pune, ii) Pune-Hyderabad, iii) Hyderabad-Bengaluru, iv) Hyderabad-Chennai, v) Chennai-Bengaluru, vi) Delhi-Varanasi and vii) Varanasi-Siliguri.
- The Budget intends to establish new Dedicated Freight Corridors connecting Dankuni in the East to Surat in the West.

VIEW

- The Government has maintained healthy allocation levels for the railways sector, which indicates its strong focus on this segment.
- In line with the previous Budget, allocation to rolling stock (19% share of FY2027 BE) remains healthy, with focus on incremental addition of new coaches. Further, allocation to track infrastructure (37% share of FY2027 BE) was 14% higher compared to FY2026 RE, with a target of 9,400 km of track infrastructure works against 9,000 km in FY2026.
- Budgetary allocation for customer amenities remained marginally lower at Rs. 120 billion compared to Rs. 121 billion in FY2026 RE. Nevertheless, it has increased at a CAGR of 30% from Rs. 19 billion in FY2020 and augurs well for EPC entities focused on station redevelopment works. The Ministry has set a target of upgrading 151 stations in FY2027.
- Development of high-speed corridors between key metro/Tier-I cities bodes well in terms of passenger traffic growth and attractiveness of the railways sector.
- The new dedicated freight corridor is likely to increase the effectiveness of railways in terms of overall freight movement.

REAL ESTATE

PROPOSALS

- The allocation towards PMAY-Urban & Urban 2.0 has been increased by 177% to Rs. 216.3 billion for FY2027 BE from Rs. 78.0 billion for FY2026 RE.
- The Budget intends to recycle significant real estate assets of CPSEs through the setting up of dedicated REITs.
- The TDS on the sale of immovable property by non-residents is likely to be deducted and deposited using the resident buyer's PAN-based challan, in lieu of obtaining a TAN.
- The Special Window for Affordable and Mid-Income Housing (SWAMIH) fund has been allotted Rs. 6.5 billion.

VIEW

- The continued focus on PMAY-Urban is likely to support demand for affordable housing in the urban real estate segment. However, the target remains ambitious as the initial estimate of Rs. 232.9 billion (FY2026 BE) was revised downwards to Rs. 78.0 billion (FY2026 RE).
- Monetising CPSEs' real estate through dedicated REIT structures is expected to unlock capital tied up in low-yielding assets and enhance financial flexibility for the Government.
- The measure is expected to streamline procedural compliance by eliminating the need for a TAN, thereby reducing administrative burden on resident buyers and improving ease of TDS processing involving non-resident sellers.
- The expansion of the SWAMIH fund is expected to ease liquidity constraints for stalled residential projects by enabling last-mile funding, thereby supporting project completion and improving delivery visibility for homebuyers.

ROADS

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PROPOSALS

- The gross budgetary allocation for the Ministry of Road Transport & Highways has been increased by 8% to Rs. 2.94 trillion in FY2027 BE from Rs. 2.72 trillion in FY2026 RE.
- The allocation to NHAI has grown by 10% to Rs. 1.87 trillion in FY2027 BE from Rs. 1.70 trillion in FY2026 RE.
- The monetisation target stands at Rs. 300 billion for FY2027. Further, the target for private investments in road sector (PPP projects) is pegged at Rs. 300 billion.
- The allocation for PMGSY remained at Rs. 190 billion in FY2027 BE, same as FY2026 BE. Nevertheless, compared to FY2026 RE of Rs. 110 billion, the allocation remains healthy, supporting the Government's aim to provide all-weather connectivity to rural habitations.

VIEW

- The Government has maintained healthy allocation levels for the road sector, which is expected to support the NIP works.
- The restriction on the incremental borrowing programme for the NHAI continued in FY2027. The NHAI, in the recent past, has prepaid some of its relatively high-cost borrowings, thereby resulting in lower interest outgo. While the external borrowings of NHAI have come down in recent times, the liability on annuity projects for NHAI is expected to remain high (Rs. 2.71 trillion as of March 2025).
- The monetisation target of Rs. 300 billion for FY2027 remains similar to FY2026. The NHAI had monetised Rs. 244 billion in FY2025 and Rs. 124 billion till 9M FY2026 through two TOT bundles. It expects to achieve the target for FY2026 after completion of the fifth round of asset transfer to the NHAI InvIT, IPO of NHAI Public InvIT (Raajmarg Infra Investment Trust) and the pending five TOT bids.
- While the allocation towards PMGSY has remained similar compared to FY2026 BE, the allocation remains healthy against FY2026 RE and is likely to support the order book of small construction contractors while improving the last-mile connectivity.

TEXTILES

PROPOSALS

- The Budget has announced an integrated programme for textiles that includes -
  - A National Fibre Scheme for self-reliance in natural fibres such as silk, wool and jute, man-made fibres and new age fibres
  - Textile expansion and employment schemes to modernise traditional clusters with capital support for machinery, technology upgradation and common testing and certification centres
  - A National Handloom and Handicraft programme to integrate and strengthen existing schemes and support for weavers and artisans
  - A Tex-Eco Initiative to promote globally competitive and sustainable textiles and apparel
  - Mega textile parks on challenge mode
  - Samarth 2.0 to modernise and upgrade the textile skilling ecosystem through collaboration with industry and academic institutions
- The Mahatma Gandhi Gram Swaraj initiative has been introduced to strengthen khadi, handloom and handicrafts, while the One-District – One-Product initiative has been rolled for the rural youth.
- The timeline for the export of final product has been increased to one year from six months.
- A three-pronged approach will be taken to aid SMEs (creation of equity fund, liquidity support through TReDS and professional guidance).

VIEW

- The set of proposals for covering fibres, handloom, technological improvement, sustainability, upskilling and modernisation with an allocation of Rs. 15 billion under the integrated textile programme is likely to make the sector more resilient.
- Amid the recent US-tariff led disruptions, these measures are expected to enhance employee productivity, enable exports of both cotton and manmade products, thus making the exporters globally competitive.
- The focus on sustainability, upskilling and investments in modernisation will enable a rounded improvement for the sector.
- The establishment of mega textile parks and promotion of handloom and handicraft segments will enable the industry to become future-ready.
- The timeline extension to one year from six months is a reprieve for textile exporters.
- The support for MSMEs in the form of dedicated equity fund and liquidity aid (through TReDS) will aid the textile sector at large.

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Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head - Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

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